(25,693)

SUPREME COURT OF THE UNITED STATES.

OCTOBER TERM, 1916.

No. 863.

BOSTON STORE OF CHICAGO

vs.

AMERICAN GRAPHOPHONE COMPANY AND COLUMBIA GRAPHOPHONE COMPANY.

ON A CERTIFICATE FROM THE UNITED STATES CIRCUIT COURT OF APPEALS FOR THE SEVENTH CIRCUIT.

INDEX.

	Original.	Print
Certificate from the United States circuit court of appeals for the seventh circuit	1	1
Statement	1	1
Questions certified	5	4
Judges' signatures	6	4
Clerk's certificate	6	5

JUDD & DETWEILER (INC.), PRINTERS, WASHINGTON, D. C., MAY 15, 1917.

1 In the United States Circuit Court of Appeals for the Seventh Circuit, October Term and Session, 1916.

No. 2324.

BOSTON STORE OF CHICAGO, a Corporation, Appellant,

vs.

AMERICAN GRAPHOPHONE COMPANY, a Corporation, and COLUMBIA GRAPHOPHONE COMPANY, a Corporation, Appellees.

Appeal from the United States District Court, Northern District of Illinois, Eastern Division.

In this case certain questions of law arise, concerning which this court desires the advice of the Supreme Court.

Appellee, the American Company, a West Virginia corporation, with its principal office in Bridgeport, Connecticut, as assignee of certain Letters Patent of the United States, is the manufacturer under said patents of sound records for use upon graphophones.

Appellee, the Columbia Company, a West Virginia corporation, with its principal office at Washington, D. C., markets the said sound records so manufactured by the American Company, for and as the agent of the American Company.

Appellant, the Boston Store, an Illinois corporation, with its principal office in Chicago, Illinois, is engaged in the sale of merchandise at retail, and on the 15th day of October, 1912, at Chicago, entered into an agreement in writing with the Columbia Company, acting as such agent of the American Company, as follows:

2 No Jobbing Privileges Extended under this Contract.

Notice to Purchasers of "Columbia" Graphophones, Grafonolas, Records, and Blanks.

All "Columbia" Graphophones, Grafonolas, Records and blanks are manufactured by the American Graphophone Company under certain patents and licensed and sold through its sole sales agent the Columbia Phonograph Company (General), subject to conditions and restrictions as to the persons to whom and the prices at which they may be resold by any person into whose hands they come. Any violation of such conditions or restrictions make the seller or user liable as an infringer of said patents.

After reading the foregoing notice and in consideration of current dealers' discounts given to me/us by the Columbia Phonograph Company (General, I/we Hereby Agree to take any Columbia product received by me/us from said company, either directly or through any intermediary, under the conditions and restrictions referred to in

said notice and to adhere strictly and be bound by the official list prices established from time to time by said Company and that I/we will neither give away, sell, offer for sale, nor in any way dispose of such goods, either directly or through any intermediary, at less than such list prices, nor induce the sale of such goods by giving away or reducing the price of other goods, nor sell or otherwise dispose of any of said goods, directly or indirectly, outside of the United States, and I/we understand that a breach of this agreement will amount to an infringement of said patents and subject me/us to a suit and damages therefor. I/we admit the validity of all patents under which said product is manufactured and hereby covenant and agree not to question or contest the same in any manner whatsoever. I/We further understand and agree that this license extends the right to market said Columbia product from the below mentioned address only, and that a separate contract is required to market said product from a branch store or stores, or through an agent or agencies at any other point.

I/We acknowledge the receipt of a duplicate of the foregoing notice and contract and that no representations or guarantees have been made by the salesman on behalf of said Company which
3 are not herein expressed. I/We also acknowledge receipt of the official list prices on all Columbia product in force at the date hereof.

Dated Oct. 15, 1912.
Witness F. Austin Coss.
Signed Boston Store.
Business Dept. Store.
Street & No. State and Madison.
City Chicago State Ill.

40 & 10%.
Chicago, Ill.

Form 1098. Oct. 1st, 1911 U. S.

Columbia Phonograph Company, General.

Contract.

Retail Dealers' "500 Purchase" Price.

Maintenance.
Chicago.

Name Boston Store.
Date Oct. 15, 1912.
Rating A. A. A 1.
(if references attach copy.)
Terms (30 days net 2% 10.
Credit Limit For requirements.
Amount of Order, net 502 44.

(See copy of original order attached.)

O. K. FUHRI.
CHAS. F. BAER, *Manager.*

NOTE.—All orders taken under this contract must be submitted and taken subject to the approval of the Wholesale Department with the information requested. Such stores as come under District supervision should submit such orders through the District Manager.

Retail Dealers'.
"$500 Purchase" Discounts.
Subject to Change.
Purchase Requirements.

An order for not less than $500 net in one order of Columbia Graphophones, Grafonolas, Records and Supplies, for immediate shipment, exclusive of premium machines and previous purchases, and thereafter the purchase of Columbia Graphophones, Grafonolas, Records and Supplies to an amount aggregating not less than $1,000 net, each year, from the date of making above purchase.

4 Dealers must keep on hand at all times sufficient stock for exhibition and sales purposes.

Discounts on Machines.

Commercial Machines and Supplies	No Discount.
Type BC Graphophone	30 and 10 Percent.
Other Types of Graphophones	40 and 10 Percent.
Grafonolas listing less than $100	40 and 10 Percent.
Grafonolas listing at $100 and over	35 and 10 Percent.

Discounts on Records.

Indestructible cylinder	40 Percent.
65c 10″ double disc records	41c net.
75c 10″ double disc records	40 Percent.
$1.00 12″ double disc records	40 Percent.
Fonotipia and Symphony series, 12″ Blue Label, Grand Opera and Concert Selections	40 and 10 Percent.

Accessories and Parts: Discounts on Repair Parts and miscellaneous supplies same as discounts on machines.

Special net prices quoted on Record and Cabinets and Needles.

Terms: Net Thirty Days.
2% Ten Days.

Delivery: F. O. B. Points of shipment.

NOTE.—See current Columbia catalogues for list prices on machines, records and supplies.

Subsequent thereto and prior to the filing of the bill of complaint, the Columbia Company, acting as the agent of the American Company, in pursuance of said contract delivered in Chicago to the Boston Store a quantity of such phonographic records manufactured by the American Company under said Letters Patent; and the Boston Store paid the Columbia Company the full amount which had theretofore been fixed by the American Company.

The American Company, acting through its agent, the Columbia Company, employs in the marketing of its phonographic records and

its other products a system of price maintenance, by which system it has been its uniform practice to cause its agent, the Columbia Company, to enter into similar contracts as the one above set forth, in the name of the Columbia Company, with dealers in phonographic records, located in the United States and its territorial possessions, to whom the American Company delivers its product, through the Columbia Company, by which it is provided, in part, that in consideration of the prices at which prescribed quantities of the various said products of the American Company are agreed to be delivered to such dealer, the dealer, in turn, obligates himself or itself in selling such products to adhere strictly to and to be bound by and not to depart from the official list prices promulgated from time to time by the Columbia Company for said products, and further expressly covenants not in any way to dispose of any such products at less than such list prices. The American Company fixes and prescribes the prices of its said products, and said contracts when entered into cover all such products of the American Company which may thereafter from time to time be acquired by such dealers from the Columbia Company, without any new express price restriction contract being entered into at the time when each order for goods subsequent to the entering into of said contract is placed or filled by said dealers.

In pursuance of said price maintenance system the Columbia Company, acting under said instructions and as the agent of the American Company, entered into contracts similar to that hereinabove set forth with over five thousand dealers in phonographic records located in the United States and its territorial possessions.

Prior to the filing of the bill of complaint the Boston Store had knowingly sold and at the time of the filing of said bill of complaint was knowingly selling at retail to the public the said records so aforesaid obtained from the Columbia Company, at a price less than the official list prices theretofore established by the American Company and by the Columbia Company.

The amount in controversy, exclusive of interest and costs, largely exceeds the sum of three thousand dollars.

The questions concerning which this court desires advice are these:

1. Does jurisdiction attach under the patent laws of the United States?

2. If so, do the recited facts disclose that some right or privilege granted by the patent laws has been violated?

3. Can a patentee, in connection with the act of delivering his patented article to another for a gross consideration then received, lawfully reserve by contract a part of his monopoly right to sell?

4. If jurisdiction attaches solely by reason of diversity of citizenship, do the recited facts constitute a cause of action?

The clerk of this court is directed to transmit a certified copy hereof to the Supreme Court.

FRANCIS E. BAKER,
JULIAN W. MACK,
SAMUEL ALSCHULER,
Judges of the United States Circuit Court of Appeals for the Seventh Circuit, Sitting in Said Cause.

United States Circuit Court of Appeals for the Seventh Circuit.

UNITED STATES OF AMERICA,
Seventh Judicial Circuit, ss:

I, Edward M. Holloway, Clerk of the United States Circuit Court of Appeals for the Seventh Circuit, do hereby certify that the foregoing certificate and statement of facts in the case of Boston Store of Chicago, appellant, versus American Graphophone Company and Columbia Graphophone Company, appellees, was duly filed and entered of record in my office by order of said Court and, as directed by said Court, the said certificate is by me forwarded to the Supreme Court of the United States, for its action thereon.

In witness whereof I have hereunto subscribed my name and affixed the seal of said Court, at the City of Chicago, this second day of January, A. D. 1917.

[Seal United States Circuit Court of Appeals, Seventh Circuit.]

EDWARD M. HOLLOWAY,
Clerk of the United States Circuit Court of Appeals for the Seventh Circuit.

Endorsed on cover: File No. 25,693. U. S. Circuit Court Appeals, 7th Circuit. Term No. 863. Boston Store of Chicago vs. American Graphophone Company and Columbia Graphophone Company. (Certificate.) Filed January 12th, 1917. File No. 25,693.

Office Supreme Court, U. S.
FILED
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JAMES D. MAHER,
CLERK.

IN THE

Supreme Court of the United States.

OCTOBER TERM, A. D. 1917.

No. 363.

BOSTON STORE OF CHICAGO,
Appellant,
vs.
AMERICAN GRAPHOPHONE COMPANY and COLUMBIA GRAPHOPHONE COMPANY,
Appellees.

Upon Certificate from the United States Circuit Court of Appeals in and for the Seventh Circuit.

Argument of James M. Beck on Behalf of Appellees as to the Fourth Certified Question.

ELISHA K. CAMP,
DANIEL N. KIRBY,
JAMES M. BECK,
GILBERT H. MONTAGUE,
Of Counsel for Appellees.

C. G. Burgoyne Printing Business, 72-78 Spring St., New York.

IN THE

SUPREME COURT OF THE UNITED STATES,

OCTOBER TERM, A. D. 1917.

No. 363.

BOSTON STORE OF CHICAGO, Appellant, vs. AMERICAN GRAPHOPHONE COMPANY and COLUMBIA GRAPHOPHONE COMPANY, Appellees.	Upon Certificate from the United States Circuit Court of Appeals in and for the Seventh Circuit.

ARGUMENT OF JAMES M. BECK FOR APPELLEES AS TO THE FOURTH QUESTION.

This argument will be restricted to a discussion of the fundamental question which underlies the fourth question certified to this Court.

The question may be briefly stated as follows:

Is a contract of sale, which imposes upon the vendor's immediate vendee a resale price, necessarily and under all circumstances, invalid?

This question is of great importance. It not only vitally affects vast property interests, but it equally

concerns the opportunity and ability of thousands of small retail dealers to exist.

It involves a controversy between would-be monopolists and anti-monopolists, for, as will hereafter appear, a limited resale price system makes for the widest distribution of products and the most extensive opportunity to participate in a branch of commerce, while the system of unlimited price cutting, as practiced by department stores, chain stores and mail order companies, inevitably tends to the destruction of competitors, and to the monopolization of traffic in the hands of a few great business enterprises in each city.

It will be contended that the question is foreclosed to controversy by the decision of this Court in the case of Dr. Miles Co. vs. Park & Sons Co., 220 U. S., 373. It is true that certain reasoning in that case, largely *obiter dicta*, seems to indicate a conclusion that under any and all circumstances a vendor is legally powerless to impose upon his vendee a resale price ; but as will hereafter appear, and as has been shown in our main brief (pp. 112–138), the decision itself is not inconsistent with the contention that such a contract is not necessarily unlawful, and will not be adjudged void unless under all the circumstances it is clear that the contract is prejudicial to the public welfare.

This Court has repeatedly stated that its opinions are to be interpreted according to the facts upon which they were based, and that no generality of expression definitely fixes the law unless such expressions are necessary to the decision of the case.

As was said by this Court in Woodruff vs. Parham,

8 Wallace, 123, such *obiter dicta* "can only be received as an intimation of what they (the Court) might decide, if the case ever came before them, for no such case was then to be decided," and was therefore not "a judicial decision of the question."

All that was necessarily decided in the case of Dr. Miles Co. vs. Park & Sons, 220 U. S., 373, was, that *where an article of commerce was absolutely monopolized* by a given producer, and where therefore no competitive conditions existed in that line of commerce to protect the consumer, and where the producer, being thus an absolute monopolist, imposed upon all distributors and retailers an interlocking system of contracts, *which made competition in prices an impossibility*, that such producer could not, as against one, *who sustained no contractual relation whatever to the producer*, compel him to submit to such price maintenance system.

To decide otherwise would have been to negative altogether the possibility of freedom in trade, and we are not suggesting that this case requires either reversal or modification.

We are contending, however, that the Dr. Miles case should not be extended beyond its essential facts or so interpreted as to put the business interests of this country into a rigid and inelastic straight-jacket.

I.

In considering the question above suggested, the Court, we respectfully submit, should commence with

the presumption in favor of liberty of contract. Such liberty is one of the most sacred rights guaranteed by the Constitution, and upon it the amazing edifice of American industry has been largely built. Presumptively a vendor and a vendee are entitled to determine the conditions upon which the vendor will sell and the vendee will buy. Such liberty, however, is not absolute, and obviously the vendor and vendee cannot make a contract that is either criminal, immoral or against public policy in being prejudicial to the common welfare.

That an agreement between a vendor and vendee as to the resale price of an article is not inherently criminal or immoral is clear beyond question. Each is dealing with his own property. The vendor has generally the right to say upon what conditions he will part with his commodity, for he is under no legal obligation to sell it, and the vendee has an equal right to say upon what conditions he will part with his money.

The real question, therefore, is, whether under any and all circumstances a condition as to a resale price is so plainly prejudicial to the public interests that a Court will not enforce the contract.

If so, it is "a restraint of trade," and, when related to interstate commerce, is as such within the Sherman Anti-Trust Law. If, however, such a contract in a given case is not clearly prejudicial to the public welfare, then the presumptive right of the contracting parties to "do as they will with their own" should be respected.

II.

It is often erroneously assumed that at common law all restraints upon the alienation of personal property were invalid whether complete or partial. In support of this, Coke's illustration, that the vendor may not sell a horse upon condition that the vendee shall not resell him is generally instanced. Coke never said that his horse could not be sold under a condition that it should not be resold at less than a stipulated price. That horse has been ridden to death, and in any event the inference drawn from this illustration has been a misleading one, for it is not and never was the law that all restraints on alienation, whether complete or partial, were invalid at common law.

The erroneous idea that any restraint upon the alienation of personal property was void at common law arose out of a misconception of the following passage from *Coke on Littleton*, Section 360:

> " And so it is, if a man possessed of a lease for years, or of a horse, or of any other chattell reall or personall, and give or sell his whole interest or propertie therein upon condition that the donee or vendee shall not alien the same, the same is void, because his whole interest and propertie is out of him, so as he hath no possibilitie of a reverter, and it is against trade and traffique, and bargaining and contracting between man and man."

Coke, in the context of this very passage, however, and Littleton, in the section of his *Tenures*, on

which it is based, both stated that the rule referred only to *total* restraints upon *every* mode of alienation, and did not include restraints that were not *total*, or that left free *some* right of alienation—like the conditions of the agreement certified in the present case, for instance. As this widely current misconception requires correction, the exact language of these venerable and learned authorities deserves quotation.

Chapter 5 of the Third Book of *Coke's Institutes* treats " Of Estates upon Condition ". After discussing conditions in general, conditions precedent, impossible conditions and illegal conditions (all relating to *land*), and after noting some differences between conditions in contracts and conditions in real property, the commentator returns to conditions in real property, and quotes *Littleton's Tenures*, Section 360, as follows:

> " Also, if a feoffment be made upon this condition, that the feoffee shall not alien the land to *any*, this condition is void, because when a man is infeoffed of lands or tenements (*pur ceo que quant home est enfeoffe de terres ou tenements*), he hath power to alien them to any person by the law. For if such a condition should be good, then the condition should oust him of *all* the power which the law gives him, which should be against reason, and, therefore, such a condition is void ".

In the first paragraph of his notes on this passage, Coke unequivocally supports this distinction:

> " ' Also, if a feoffment be made, &c.' And the like law is of a devise in fee upon condition

that the devisee shall not alien, the condition is void, and so it is of a grant, release, confirmation, or any other conveyance whereby a fee simple doth pass. For it is absurd and repugnant to reason that he, that hath no possibility to have the land revert to him, should restrain his feoffee in fee simple of *all his power to alien*. And so it is if a man be possessed of a lease for years, or of a horse, or of any other chattell reall or personall, and give or sell his whole interest or propertie therein upon condition that the donee or vendee shall not alien the same, the same is void, because his *whole* interest and propertie is out of him, so as he hath no possibilitie of a reverter, and it is against trade and traffique, and bargaining and contracting between man and man: and it is within the reason of our author that it should ouster him of *all* power given to him. *Iniquum est ingenuis hominibus non esse liberam rerum suarum alienationem;* and *rerum suarum quilibet est moderater*, & *arbiter*. And again, *regulariter non valet pactum de re mea non alienanda*. But these are to be understood of conditions annexed to the grant or sale itself in respect of the repugnancy, and not to any other collaterall thing, as hereafter shall appear."

Continuing in the same paragraph, Coke applies the same rule to the grant "of a seigniory, or a rent, or an advowson, or common, or any other inheritance that lyeth in grant"—all chattels real, be it noted. Coke then illustrates how such a condition may validly be annexed to a "collateral thing". He quotes *Littleton's Tenures*, Section 361, as follows :

> "But if the condition be such, that the feoffee shall not alien to *such a one*, naming his name, or to any of his heirs, or of the issues of such a one (Mes si le condition soit tiel, que le feoffee ne alienera a un tiel, nosmant son nosme, ou a ascun de ses heires, ou de issues d'un tiel), &c., or the like, *which conditions do not take away all power of alienation* from the feofffee, &c., *then such condition is good.*"

Here is Littleton's express statement that restraints, that fall in any degree short of complete denial of the right of alienation, to quote Littleton, that "do not take away all power of alienation"—are good.

That Littleton would have held valid a restraint like that of the agreement certified in the present case, which leaves the vendee free at any time, anywhere, and upon any conditions, to sell the article to anyone, provided only he sell at the particular resale price to which he expressly assented when he bought the article, can hardly be doubted. That Coke shared this view is plain from his notes:

> "If a feoffment in fee be made upon condition that the feoffee shall not enfeoffe I. S. or any of his heirs or issues, &c., this is good for he doth not restrain the feoffee of *all* his power."

Page after page then follows of sections from Littleton and notes thereon by Coke, all discussing examples of partial restraints upon alienation that are valid, because they are not unlimited and do not prohibit *every* mode of alienation.

III.

The decision of Mitchell vs. Reynolds, 1 P. Wms., 181 (decided in 1711), and all subsequent cases thereafter, simply recognized the common law, and the only change of doctrine was the growing recognition by the Courts that all restraints upon alienation, growing out of contract, should be recognized as within the fair rights of the contracting parties, unless such restraints were clearly prejudicial to the public welfare. As society emerged from the primitive conditions of Littleton's and Coke's times, and the great industrial era of the steamship, the railroad and the telegraph came, the courts and legislatures of the leading nations recognized that the true welfare of society required the greatest possible liberty of contract not clearly inconsistent with the public welfare.

This pronounced tendency, observable not only in England and America, but in all leading commercial countries, was in America temporarily checked by the mistaken interpretation placed upon the decisions of this Court in the Traffic Association Cases (166 U. S., 290 and 171 U. S., 505), until in the leading case of Standard Oil Co. vs. United States (221 U. S., page 1 and decided in 1911) this Court again reviewed the whole subject and definitely established the principle that the Sherman Law simply affirmed with respect to interstate and foreign commerce the principle of the common law as to restraints of trade, as modified and developed by progressive decisions of English and American Courts.

Chief Justice WHITE in this notable opinion referred to the fact that England had repealed the earlier statutes forbidding " engrossing, forestalling, etc., upon the expressed ground that the prohibited acts had come to be considered as favorable to the development of and not in restraint of trade," and he added that the common law gave " an instinctive recognition of the truisms that the course of trade could not be made free by obstructing it, and that an individual's right to trade could not be protected by destroying such right."

This Court further stated that the Sherman Law also indicated "a consciousness that the freedom of the individual right to contract, when not unduly or improperly exercised, was the most efficient means for the prevention of monopoly, since the operation of the centrifugal and centripetal forces, resulting from the right to freely contract, was the means by which monopoly would be inevitably prevented."

This Court significantly added that " freedom to contract was the essence of freedom from undue restraint on the right to contract."

To prevent confusion and to make clear this emancipaion of commerce from undue restraints on the liberty to contract, this Court expressly said that any expressions in its decisions in the Traffic Association Cases, above referred to, " are necessarily now limited and qualified."

IV.

Since this notable decision, the law is unquestioned that unlawful restraints of trade, either at common law

or under the Sherman Anti-Trust Law, "only embraced acts or contracts or agreements or combinations which operated to the prejudice of the public interests by *unduly* restricting competition or *unduly* obstructing the due course of trade, or which, either because of their inherent nature or effect, or because of the evident purpose of the act, etc., injuriously restrained trade."

In a later case this Court added that "the statute did not forbid or restrain the power to make *normal* and *usual* contracts to further trade by resorting to all *normal* methods, whether by agreement or otherwise, to accomplish such purpose" (U. S. vs. American Tobacco Co., 221 U. S., 106, 179).

Some of the more pertinent decisions are cited in our main brief (pages 105–111).

V.

As the legal test of a contract is the public welfare, it inevitably follows that the judicial declaration of public policy must conform to changing economic conditions. In this respect, as in all others, "new occasions teach new duties," and the rapid changes of a progressive and complex age must at times "make ancient good uncouth." This Court has never failed to recognize this fact and to adapt its declarations of public policy to the ever changing needs of an ever changing age. Even before the Standard Oil and American Tobacco decisions, this Court, in 1910, emphasized the duty of the judiciary to determine the

reasonableness or unreasonableness of particular contracts in the light of such changing conditions, when it said in the case of Dr. Miles Medical Company vs. Park & Sons, 220 U. S., 406:

> "With respect to contracts in restraint of trade, the earlier doctrine of the common law has been substantially modified in adaptation to modern conditions. *But the public interest is still the first consideration.* To sustain the restraint it must be found to be reasonable both with respect to the public and to the parties, and that it is limited to what is fairly necessary in the circumstances of the particular case for the protection of the covenantee. Otherwise, restraints of trade are void and against public policy. As was said by this Court in Gibbs vs. Baltimore Gas Company, 130 U. S., page 409: 'The decision in Mitchell vs. Reynolds, 1 P. Wms., 181, is the foundation of the rule in relation to the invalidity of contracts in restraint of trade; *but as it was made under a condition of things and a state of society, different from those which now prevail, the rule laid down is not regarded as inflexible,* and has been considerably modified. Public welfare is first considered, and if it be not involved, and the restraint upon one party is not further than protection to the other party requires, the contract may be sustained. *The question is whether under the particular circumstances of the case, and the nature of the particular contract involved in it, the contract is or is not unreasonable.*'"

Without respect to the economic conditions of Coke's period, when England was largely an agricul-

tural nation, we are now contending that the duty of determining what is a reasonable method of commerce must take into account the changing methods of commerce, and that the rules of law must expand in harmony with the natural liberty of contract and the expanding genius of the age.

It was well said by a Minnesota Court:

> "It must be remembered that the common law is the result of growth, and that its development has been determined by the social needs of the community which it governs. It is the resultant of conflicting social forces, and those forces which are for the time dominant leave their impress upon the law. It is of judicial origin, and seeks to establish doctrines and rules for the determination, protection and enforcement of legal rights. Manifestly it must change as society changes and new rights are recognized. To be an efficient instrument, and not a mere abstraction; it must gradually adapt itself to changed conditions. Necessarily its form and substance has been greatly affected by prevalent economic theories. For generations there has been a practical agreement upon the proposition that competition in trade and business is desirable, and this idea has found expression in the decisions of the courts as well as in statutes. But it has led to grievous and manifold wrongs to individuals, and many courts have manifested an earnest desire to protect the individuals from the evils which result from unrestrained business competition. The problem has been to so adjust matters as to preserve the principle of compe-

tition, and yet guard against its abuse to the unnecessary injury to the individual."

Tuttle vs. Buck, 107 Minn., 145.

The profound changes, which modern inventions have made in commercial methods, have been freely recognized by the courts in determining the reasonableness of contracts in restraint of trade. As was well said by the New York Court of Appeals, in Diamond Match Company vs. Roeber, 106 New York, 473:

> "Steam and electricity have for the purpose of trade and commerce, almost annihilated distance, and the whole world is now a mart for the distribution of the products of industry. The great diffusion of wealth, and the restless activity of mankind, striving to better their condition, has greatly enlarged the field of human enterprise, and created a vast number of new industries which give scope to ingenuity and employment for capital and labor * * *. The tendency of recent adjudications is marked in the direction of relaxing the rigor of the doctrine that all contracts in general restraint of trade, are void, irrespective of special circumstances. Indeed, it has of late been denied that a hard and fast rule of that kind has ever been the law of England (Roussilon vs. Roussilon, 14 L. R. Chancery Division, 351). The law has for centuries permitted contracts in partial restraint of trade, when reasonable. * * *. *It is clear that public policy in the interests of society favor the utmost freedom of contract within the law, and require that business transactions should not be trammelled by unnecessary restrictions.*"

VI.

Applying these considerations to the precise question now under consideration, it is obvious that when a vendor sells a commodity of commerce to a vendee, upon condition that he shall not resell the article at less than a minimum price, that no *general or absolute* restraint of alienation exists.

The vendee is free to sell to whom, and upon what conditions he pleases, with the one exception noted. Unless it is plain that such a contract is prejudicial to the public welfare, it must be sustained as within the constitutional rights of both vendor and vendee.

In determining this question, this Court must recognize that there is a wide variety of circumstances under which such restrictions are imposed.

For example, the article may be a necessity of life, or, as in the case at bar, a mere luxury.

Again, the article may be sold under competitive conditions or, as in the Dr. Miles case, under non-competitive conditions. In that case an absolute monopoly existed. As Justice BRANDEIS, when still a member of the bar, well said :

> " The position of the independent producer, who establishes the price at which his own trade-marked article shall be sold to the consumer, must not be confused with that of a combination or trust, which, controlling the market, fixes the price of a staple article. The independent producer is engaged in a business open to competition. He establishes his price at his peril, the

> peril that if he sets it too high, either the consumer will not buy or, if the article is, nevertheless, popular, the high profits will invite even more competition. The consumer who pays the price established by an independent producer in a competitive line of business does so voluntarily; he pays the price asked, because he deems the article worth that price as compared with the cost of other competing articles. But when a trust fixes, through its monopoly power, the price of a staple article in common use, the consumer does not pay the price voluntarily. He pays under compulsion. There being no competitor he must pay the price fixed by the trust, or be deprived of the use of the article." ("Cut-throat Prices," Harpers' Weekly, Nov. 15, 1913.)

We have already discussed in our main brief, pages 111–138, the immense and vital difference between the existence of competitive and non-competitive conditions as bearing upon the reasonableness of a contract for a resale price, and without repeating what is there better stated, we need only refer briefly to the controlling importance of this question of fact.

In determining public policy with respect to contracts in restraint of trade, the courts have always had in mind the interests of the consumer, and have sought to protect him against an undue and artificial enhancement of prices.

To prevent misconstruction, we do not concede that public policy should *solely* regard the interests of the consumer, for society is like an orchestra in which each instrument is essential to an harmonious whole.

Nevertheless the consumer, especially when necessaries of life are involved, must be a matter of first and chief consideration. Public policy, however, must necessarily take into account the retailer, the distributor and especially the producer, for if the producer cannot economically produce, the consumer must suffer a total deprivation of the product.

It is obvious that that which chiefly concerns the consumer and most intimately affects a possible enhancement of prices is the absence of competitive conditions, and, when these do not exist, it may well be that a contract, which restricts a vendee from reselling at less than a fixed price, may affect the consumer.

This was the fact in the Dr. Miles case, for there a complete absence of competitive conditions existed, and the fixed resale price necessarily affected the consumer. Where, however, competitive conditions exist, the inevitable working of economic laws protects the consumer not only in giving him the opportunity, if he thinks the resale price unfair, to purchase a competing product, but also because the existence of competitive conditions normally affects the reasonableness of the resale price.

Take for example the business with which the present case is concerned. If the complainants were the sole producers of phonographs and phonographic records, their power to impose upon their immediate vendees a resale price would affect the consumer, whose only protection would be that if the price were excessive, the consumer would refuse to buy what is a mere luxury. The complainants, however, are obliged

to compete in the sale of sound-producing instruments with many other producing companies—some producing cheap and low grade phonographs, and others, as the Victor Talking Machine Company, high grade products. Under these circumstances, if the Columbia Company by its contract with a retailer imposes an excessive resale price, the consumer will buy the products of other producing companies, and this power and opportunity on his part will necessarily influence the judgment of the producer in determining his vendee's resale price. He will not fix one calculated to drive his customers to other producers.

In this connection it must not be forgotten that to condemn the power of the producer to impose resale prices will accomplish nothing, except to impose upon the producer additional expenses, which are generally shifted to the consumer, who thus pays a higher price for a product.

Economic laws are as the tides. They move irresistibly and beyond the power of statute or judicial decision to control. No one questions, for example, the right of the producer, if he has sufficient capital, to establish his own depots for the marketing of his products, and in that event to charge the consumer what price he pleases. If he have not sufficient capital to establish his own marketing depots, he can at least consign his goods to his own agents with a similar result. It is well known that either the chain-store or the consignment plan is far more expensive than the distribution of a product through distributors and retailers.

It inevitably follows that if the public policy of the

nation, as declared by statute or judicial decision, should unreasonably interfere with the right of contract in the matter of resale prices, that the strongest producers will, as in the case of the Standard Oil and other great concerns, be driven to market their own products. The result will be that the consumer will not only pay as much but, other things being equal, he will pay more for his product, because upon him the burden of increased expenses generally falls.

Thus the small producers may be driven out of business, and only the large producers remain; and this inevitably will tend towards partial monopolization.

Here again is illustrated the futility of interfering with the normal contracts of business, and emphasizes that which we have already quoted from Chief Justice WHITE'S philosophical opinion in the Standard Oil case that the undue attempt of law to interfere with economic processes to prevent so-called restraints of trade, generally ends in restraints of trade and is in the long run of little, if any, benefit to the consumer.

The present theory of the law is that its processes should be used to conserve competitive conditions. It should not further interfere with the liberty of contract; and where competitive conditions exist, there is no longer a justifiable reason for forbidding a contract between a vendor and vendee, which prescribes a resale price.

This important fact is receiving increasing attention in the decisions of the courts. Some of the more recent cases will be found in our main brief, pages 116–125.

I cannot leave this branch of the subject without

also referring to the fallacy that competition consists exclusively in prices. A resale price may or may not affect competition in prices, but it cannot affect competition in quality and service, and the modern tendency to standardize prices in standardized goods not only leaves open, but actually stimulates, the competition in the quality of products and the many commercial methods, which may be summarized under the word " service."

For example, there is the keenest competition between the Columbia in marketing its phonographic records and the Victor Talking Machine Company. Each endeavors to secure the most advantageous distributing facilities, the services of the greatest artists for the purpose of making records, and the greatest popularity and reputation for its products. Each endeavors in its laboratories to improve its products and make them more perfect.

The truest competition consists in these elements, and it is a narrow conception of the public welfare which ignores these elements in exclusive consideration of the question of prices.

Here again in determining the public welfare, the varying conditions of different branches of commerce should be borne in mind. Between one pound of sugar and another there is little or no competition in quality, but between the phonographic record of one company and that of another a very acute competition does exist, irrespective of prices.

In concluding this branch of the discussion, I again emphasize the thought that even if competition in prices

is the only element to be considered, that the reasonableness *even from the standpoint of the consumer* of resale prices must depend upon the existence or non-existence of competitive conditions, *and this in itself shows the danger of holding too broadly and rigidly that all such contracts are void.*

Again, the resale price may be a reasonable or an unreasonable one. Here, the workings of economic law generally result in the fact that if the resale price be unreasonable, the consumer, unless it be a necessary of life, will not take it, and sooner or later it must be abandoned. If the resale price be reasonable, the consumer gets an equivalent for his money. Here the reasonableness of a resale price is best determined by vendor and vendee, *for the vendee will not buy for resale, if the resale price is in fact aud not as a juridical theory only, an effective restraint on alienation.*

VII.

Many other considerations, upon which the question of reasonableness may depend, could be instanced, but there is one of such overshadowing importance, and which in itself so fully illustrates the danger of invalidating all resale prices that we content ourselves with reference to it, especially as it is intimately related to the facts in the present case.

In the time of Coke, a vendor sold his commodity, and had no further practical interest in its resale. If human society were still in a primitive stage, this might be an ideal condition; but under

modern commercial methods, where the manufacturer of a commodity, not a necessary of life, must often create the market for his wares, not only for himself, but for his distributors and retailers, it is obviously impossible for the manufacturer to sell his goods, and after taking his price give no further attention to them. That considerable part of all modern commerce, which are luxuries or specialties, and not necessaries of life, and which are subject to the competition of their rival articles in the same line of commerce, and which are marketed under special brands and trade-marks and which thereby acquire an especial and stable value, cannot be developed or even maintained by the manufacturer simply selling his goods to those who apply for them. His business does not consist in selling over a counter or in a restricted locality, where a shop would be known. He offers to sell his commodity to one hundred millions of people over a territory three thousand miles wide, and as few of his customers ever see his producing plant, or business office, it is obvious that he must create the demand in the public mind, which would enable him to sell his goods. For such nation-wide sales no market overt, or public exchange exists. The public knowledge of the existence of his goods, and the need for them, must be a matter of a long and very expensive educational campaign, and he must convince millions of people that they require the purchase of his goods.

Take for example, the case at bar. Twenty-five years ago the phonograph was unknown. If invented at all it was a mere scientific toy, and its utilization as

a musical instrument in millions of homes was an undreamed possibility. The complainants and other companies proceeded to spend many millions of dollars in educating the public to the desirability of the instrument. One of these companies has spent over twenty million dollars in newspaper advertising and printing, catalogues, posters, trade emblems, etc., etc. The manufacturer has thus at enormous expense created not merely the demand for his goods on the part of his vendee, but also that which enables his vendee, generally a wholesale distributor, to sell to the retailer, and the secondary demand, which enables the retailer to open an attractive shop, and interest the public to buy.

The demand having been thus created, the efforts of the manufacturer cannot cease. They must continue ceaselessly, for the article is not a necessary of life, and sooner or later its hold upon the public mind as a novelty ceases. Thus, each month, the manufacturer widely advertises new records, and again brings to the public mind the desirability of purchasing a phonograph, not from the complainant as the manufacturer, for the producer rarely deals directly with the consumer, but from the retailer, who in turn buys from the distributor.

This immense and continuing service in developing and maintaining the value of the product is no part of any contract of sale between the manufacturer and his immediate vendee. It is a gratuitous service, so far as any contractual obligation is concerned. The manufacturer could withhold it, and if he did, his business,

and that of his distributors and retailers would sooner or later dwindle.

VIII.

It does not follow that the public necessarily pays a larger price. The more phonographs and records sold, the less the overcharge and the greater the ability of the manufacturer to develop the business. The maintenance of a reasonable price leaves a larger amount for the development of the trade as whole, and the larger the amount of such trade, the less the cost of production, and the less the cost of production, the greater the ability of the manufacturer to lessen his price from time to time.*

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* We quote the careful and deliberate findings of the Chamber of Commerce of the United States representing as no other all the business organizations of the Nation :

"Modern conditions of factory production make the protection by the producer of the factors of quality and selling conditions more effectual than their protection by the distributer can be. The distributer at best assumes in these matters a responsibility which is conditional upon contingencies beyond his control. The perfection of transportation facilities has made it easy for the producer to enforce this protection which production conditions have made effectual. The responsibility, therefore, is both effectual and directly enforcible. At the same time, 'identification' puts into the consumer's hands complete power to force the producer to fulfill the responsibilities he assumes, and to annihilate any producer who cannot or will not meet his obligations.

The fact that goods of this kind have had unquestioned public approval indicates clearly that for certain articles the great mass of the consuming public looks with favor upon this method of doing business. This method gives an incentive to ambition and the development of new products and assures to the public adequate protection against extortion by either producer or distributer.

The producer of identified goods guarantees that the standards of quality and conditions of sale shall be the best possible for the price and he practically agrees with every user of his goods that in these and all other respects, the trade-mark, brand, etc., shall be used for the consumer's protec-

That greed may in some instances and for a time defeat this chain of causation, does not destroy the economic fact that a manufacturer, who has developed a business, which enables it to employ ten thousand employees and market products amounting to many millions of dollars in value, does enable the manufacturer to market his product at a less cost, and ordinarily it is to his business interests to do so. A single phonograph of the type sold could not be made for the price at which it is sold, but the manufacture of a million phonographs makes possible, and generally results in, a cheapening of price. This is the secret of the prodigious commer-

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tion. If the goods are not satisfactory, he agrees to make them good, and upon him falls all the odium attaching to failure to keep his promise. This puts all the emphasis in bidding for the consumer's good-will upon the ability to give for a definite price the greatest value under the best conditions. This does not imply that identified goods are the only ones having high quality. It merely establishes the fact of emphasis on competition in these goods.

Goods made to sell under conditions where quality competition, service competition, etc., are conspicuous tend constantly toward better quality and conditions of sale, while prices tend to certain well defined standard levels. Upon these standard prices the production and distribution of these goods are based. This is quite generally true of identified articles, for these usually are made to retail at a given and widely accepted price. Under these circumsiances, competition normally consists in endeavor to outdo rivals in value given for a price which is held close to a reasonable level by conditions beyond individual control.

Under competitive conditions standard price levels cannot be extortionate, and to these levels all prices of competing identified articles tend. The standard prices do not remain permanent over a period of years, but they do remain stable for any season. A good illustration is found in the steady and general reduction of automobile prices in recent years. These prices have been in large measure the result of agreement between purchasers and distributers, and yet the tendency for them always has been uniformly downward during the past five years.

Most of modern competition is of a composite type representing elements, not only of price competition, but quality competition, service competition, and the rest, at the same time. The main differences lie in the emphasis." "Report of the Special Committee on Maintenance of Resale Prices," Chamber of Commerce of the U. S. A., April 1, 1916.

cial success of the Ford motor. It is the secret of all similar economic successes. *It has led, not to a restraint of trade, but a prodigious expansion.*

We are not arguing for any power on the part of the manufacturer to impose prices upon distributors and retailers *with whom he has no contractual relation.* The manufacturer should have no power to project his control over the thing he sells beyond the person to whom he sells it. His right to do so should only exist under his own contracting power. Having sold his article, whether to distributor or to retailer, upon such terms as he and his vendee think fair and reasonable, and the title thus having passed, the article, so far as the manufacturer is concerned, becomes a free article of commerce, and the power of the manufacturer is ended, when the price and other conditions of his contract with the vendee are fulfilled. Certainly he cannot *by mere notice* affixed to his commodity, as in the Sanatogen case, impose his will as to resale price upon every one into whose hands the commodity may come. Such a power would be inconsistent with the freedom of commerce.

We simply maintain that when a manufacturer has created the demand for an article, and at great expense is aiding his vendee in finding a market, that it is not unreasonable, but is consonant with the soundest business methods for him, as the owner of the article, to provide that his immediate vendee, who might otherwise be unable to sell the article, shall not, by cutting prices, make it impossible for the manufacturer to extend him that aid.

This Court has recognized this economic truth and its legal justification in McLean vs. Fleming, 96 U. S., 245, when it said :

> " Suppose the latter has obtained celebrity in his manufacture, he is entitled to all the advantages of that celebrity, whether resulting from the greater demand for his goods *or from the higher price the public are willing to give for the article*, rather than for the goods of the other manufacturer, whose reputation is not so high as a manufacturer. * * * Everywhere courts of justice proceed upon the ground that a party has a valuable interest in the good will of his trade, and in the labels or trade-mark which he adopted to enlarge and perpetuate it." *

IX.

This principle was thus based upon the law of good will, which for many years has led English and American courts to sustain contracts in partial restraint of trade. The distributor or retailer who sells a phonograph, sells something more than a piece of wood and metal. He sells something that has acquired a unique value in the market, by reason of the good-will inherent in a valuable brand. The retailer, who sells a Columbia phonograph, could not sell it to the same advantage if it were not known as a Columbia phonograph, for the

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* To the same effect see also, John Lee Mahin : " Advertising Selling the Consumer " (N. Y., 1914) pp. 170-177 ; Harry Tipper : " The New Business " (N. Y., 1914), pp. 341-361.

manufacturer, by the expenditure of many millions of dollars, has created a stable value for his products. That his good-will and its value are materially impaired by indiscriminate price cutting is clear beyond contradiction.

In more primitive times, good-will was only the habit of the public to return to a particular store; but in this more complex age, good will in a business, which deals in a branded product having a nation-wide market, is the same habit to buy an article, whose value and character are guaranteed by a given brand. Such good-will *is an asset*, and the right to protect it by reasonable agreements, even though such agreements do partially, but not unreasonably, restrain trade has long been recognized by Courts of Equity.

The rule is firmly established and is familiar, that in the case of the sale of a business having a good-will, restrictive agreements for the protection of the good-will thus sold may be validly made within reasonable limits. The reasoning which supports the rule is that the transfer of the good will thus sold, can only be adequately protected to the purchaser by compelling the seller to observe such restrictive covenants not to compete, as are reasonable to protect the good will against injury by the seller. The seller is not permitted to destroy or impair the value of the good-will, which he has sold, by competing against it.

Does not the above reasoning apply with equal force to the case of a manufacturer, who, instead of selling his good will as an entirety, makes a contract by which the vendee (through being given an opportunity

to sell large quantities of the branded product in which the good will inheres) is *entrusted with the protection of the manufacturer's good-will.*

While there is no technical agency or trusteeship in snch a case, may it not be reasonably contended that when a dealer bargains with the manufacturer of a branded article for permission to purchase for resale considerable quantities of an article, and can procure the goods only by agreeing to protect the good will, that the manufacturer *entrusts* the dealer with the actual handling of a portion of the manufacturer's good-will, *i. e.*, he permits him to become a distributor of the product which embodies the good-will, to the extent that the observance of reasonable resale restrictions will protect the good-will, and violation will seriously injure it.

Bearing in mind the fact that the subject-matter in this class of cases is limited to the branded product of the manufacturer as affected by his direct agreement with his dealer, and to such articles only as the dealer has obtained from the manufacturer pursuant to such agreement, it seems clear that the very limited restraint upon trade is less broad in subject-matter than that in case of a sale of the good will,—and that it is as reasonable a restraint.

The ultimate question is whether it is reasonable for a vendor to say to his immediate vendee:

"I will sell you a machine, which has a greater value because of the good will attached thereto, provided that you will not injure that good will by selling at a price less than that which measures the good will."

The business sense of the community, whether

regard is had to the class of manufacturers, or distributors, or retailers, believes that this is reasonable, and if the courts shall deny the rights of the manufacturer to make such a contract, then they will fail to take into account the changed commercial methods, which we have discussed, upon which the industries of this country, amounting to billions of dollars, have in great part been built. An overwhelming preponderance of opinion in the business world favors this efficient method of expanding trade. The chief dissenters form the small minority, who seek to monopolize trade by destroying their competitors by unfair competition.

Let us in this connection quote the conclusions of the Chamber of Commerce of the United States. This influential body made a careful investigation of the subject, and reached the following conclusions, which may therefore be accepted as the best business sense of the nation :

> " We have demonstrated that the advantages of price maintenance are partly economic and partly social.
>
> 1. A properly regulated system of price maintenance on identified merchandise made and sold under competitive conditions puts the emphasis in competition upon quality and service, while at the same time, it provides for the public adequate protection against extortion.
>
> 2. Price maintenance under these conditions preserves the social advantage of an adequate incentive to invent and devise new products.

3. Price maintenance under these conditions serves to prevent monopolistic control of production processes by powerful distributers.

4. Price maintenance under these conditions preserves the social advantages of such distribution conveniences as are represented by neighborhood stores and by small, but skillful merchants. In some trades it is the sole guarantee of the preservation of the accepted system of distribution. For instance, it assures the preservation of book stores as individual enterprises. If the social value of such factors as these is less than their economic cost they are not worth preserving. But who is ready at this time to encourage their annihilation? It is noteworthy that the agitation in favor of restoring to producers the control of resale prices originated with the small independent retailers, and that most of the opposition to it comes from the large and powerful retail concerns."*

X.

There is another and very important consideration, which requires a recognition of this freedom of contract. Commerce in the time of Coke was a very primitive affair. It was even more primitive in Littleton's time, for he wrote about the time Columbus discovered America. There have been other discoveries since then. Commerce then consisted of articles which were largely necessaries of life. They were sold in a re-

* Report of the Special Committee on Maintenance of Resale Prices, Chamber of Commerce of the U. S. A., April 1, 1916.

stricted community, for travel was difficult. They were sold over the counter, or in a local market by a physical comparison of the things to be sold. The purchaser tried to buy at a fair price, and to resell at a fair price, and in most cases a fair price was a result of the conflicting views and necessities of the vendor and vendee. The present times present a new condition, which largely disturbs the just equilibrium of competition, and which a wise and progressive judiciary must take into account.

In the great centers of population, department stores, chain stores, and mail order houses have come into existence, unknown to Coke's time, when the cobbler was a cobbler, and the horse dealer a horse dealer. The department store sells ten thousand articles, and the customers that throng the aisles of these vast establishments number in the course of a year many millions. To attract these millions to his store, its owner advertises his wares by full page advertisements to millions of people and no method of gaining public patronage is more common than to sell a standardized product at less than cost in order to gain a profit by the probable purchase by such customer of other articles at a large profit. The advertisements of the department store make this fact notorious. Each day they advertise their so-called "bargain sales," often without profit, and, as nearly all of them retire from business as multimillionaires, the conclusion is reasonable that what they lose on one article, a so-called "leader" (often a discreditable trap for the unwary) whose value they have thus sacrificed, or pretended to sacrifice, they make up by large profits

on other articles. No trade method is more reprehensible or more restrictive of honest business. Let me again quote Mr. Justice BRANDEIS, who gave an exhaustive study to this matter when a distinguished member of the bar, when, speaking as a publicist of acknowledged authority, he said of these methods:

> " The process of exterminating the small independent retailer, already hard pressed by capitalistic combinations—the mail-order houses, existing chains of stores, and the large department stores—would be greatly accelerated by such a movement. Already the displacement of the small independent business man by the huge corporation with its myriad of employees, its absentee ownership, and its financier control, presents a grave danger to our democracy. The social loss is great; and there is no economic gain. But the process of capitalizing free Americans is not an inevitable one. It is not even in accord with the natural law of business. It is largely the result of unwise, man-made, privilege-creating law, which has stimulated existing tendencies to inequality instead of discouraging them. Shall we, under the guise of protecting competition, further foster monopoly by creating immunity for the price-cutter?
>
> Americans should be under no illusions as to the value or effect of price-cutting. *It has been the most potent weapon of monopoly—a means of killing the small rival to which the great trusts have resorted most frequently.* It is so simple, so effective. Far-seeing organized capital secures by this means the co-operation of the short-sighted unorganized consumer to his

> own undoing. Thoughtless or weak, he yields to the temptation of trifling immediate gain; and, selling his birthright for a mess of pottage, becomes himself an instrument of monopoly."*

It is generally recognized that the incessant struggle of legitimate business interests for some limited form of price maintenance largely has its origin in these unreasonable and piratical practices.

A department store, as shown in the facts certified to this Court, having purchased a line of phonographs and records from the complainants under an express contract not to resell at less than the listed price, promptly advertises to sell them at a price less than the generally advertised and agreed price. Sometimes this price is less than the cost of production. What is the inevitable result? Sooner or later the department store to a very substantial degree restrains trade by destroying its competitors, and, with the elimination of many competitors, the demand for the manufacturer's product quickly dwindles, and with a lessened demand, his power to expand commerce by increasing the demand for his products is necessarily destroyed.

Can it be that this is for the public welfare? Can it be that a contract to desist from this form of piracy is a restraint of trade? Can it be that public policy requires the Court to give its sanction to such unfair dealing because of an assumed temporary advantage to the consumer?

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* "Cut-throat Prices," article in Harpers' Weekly, Nov. 15, 1913.

One recalls the vigorous and amply justified comment of Mr. Justice HOLMES, in his dissenting opinion in the Dr. Miles case, where he said:

> "I cannot believe that in the long run the public will profit by this Court permitting knaves to cut reasonable prices for some ulterior purpose of their own, and thus impair, if not to destroy, the production and sale of articles, which it is assumed to be desirable that the public should be able to get."

The learned Justice proceeded to say that such conduct was "fraudulent and has no merits of its own to recommend it to the favor of the Court."

XI.

In this connection the Court should apply the doctrine of the so-called "unfair trade" cases, *i. e.*, cases involving fraudulent or unfair efforts to violate common-law trade-names as distinguished from technical trade-marks. The trend of the decisions in such cases is constantly toward a more extensive protection against all unfair practices. While the question has usually arisen in suits between the manufacturers or dealers in competing products, the rule should also protect a manufacturer of a branded article, the trade name of which involves his entire goodwill, from the unfair competition of a dealer, who seeks to violate his agreement with the manufacturer. The Federal Trade Commission Act declares the legislative policy of the nation to be opposed to "unfair methods of competition in

commerce" (§ 5). How could the public policy of the nation be more comprehensively expressed?

Take the facts certified to this Court in the case at bar. The manufacturer sells his product under the name "Columbia" and its goodwill inheres largely in the value and use of that trade name. The dealer, a department store, seeks to obtain a stock of Columbia records for sale to its customers. It enters into a dealer's contract, by which it agrees not to resell except at list prices. When it has thus obtained the records, it proceeds to cut prices. The breach of contract is so glaring that the inference of fraudulent intent may reasonably arise from the fact that the dealer, having persuaded the manufacturer to supply it with a stock of records upon the dealer's agreement not to cut prices, thereafter proceeds to cut prices.

If it be actionable "unfair trade" for one manufacturer or dealer, to steal a part of the good will, which inheres in the goods of another manufacturer, by unfairly simulating the trade-marks, labels, etc. (through which the public recognizes the origin of the article),—why is it not actionable "unfair trade" for a dealer,—who can get Columbia goods from the manufacturer only by agreeing not to injure the trade name,—to proceed, when he thus gets the goods, to partially destroy the good will by deliberately breaking the agreement, on the faith of which the manufacturer let him have the goods?

The only difference seems to be that in the former case, the price cutter not only takes away from the manufacturer a part of the latter's property, but he also appro-

priates to himself what he has stolen; in the latter case, he merely destroys that much of the property of his victim.

In each case, however, the actionable wrong is that the value of the trade name to its owner has been lessened and in some cases destroyed by the fraudulent or unfair dealing of the other party.

Can a rule of law be for the public welfare that is a shield of fraud? Does the public gain any real or permanent advantage, when business contracts, entered into in good faith, are treated as "scraps of paper"?

XII.

Between the policy of *unlimited* price restriction through mere notice and the policy of a *partial* price restriction through the right of contract, there is, we submit, a twilight zone, in which the forces of commercial freedom should have full play, at least until the legislative department of the Government declares otherwise, and we earnestly press upon this Court, in justice to the vast interests that are concerned in this controversy, that this Court should recognize the existence of such a twilight zone, not by creating a new law but by recognizing the fundamental liberty to make a reasonable contract and the rule of common law, which only forbade a complete restraint on alienation.

In so doing, it will not, as we have previously shown, declare any new law. It will simply recognize the doctrine of English and American courts for the last two centuries, which sustains the right of contract,

unless the exercise of such right is plainly prejudicial to the public welfare.

That agreements in respect of so-called resale price maintenance should be sustained unless affirmatively shown to be in derogation of public policy has been held in other jurisdictions. Among many cases can be cited:

Grogan vs. Chaffee, 156 Cal., 611.
Ghirardelli vs. Hunsicker, 164 Cal., 355.
Commonwealth vs. Grinstead, 111 Ky., 203.
Weiboldt vs. Standard Fashion Company, 80 Ill. App., 67.
Garst vs. Harris, 177 Mass., 72.
Garst vs. Hall & Lyon Company, 179 Mass., 588.
Garst vs. Charles, 187 Mass., 144.
Rackemann vs. River Bank Improvement Co., 167 Mass., 1.
Clark vs. Frank, 17 Mo. App., 602.
Walsh vs. Dwight, 58 N. Y., Supp. (General Term New York Supreme Court), 91.
Fisher Flouring Mills Company vs. Swan- 76 Wash., 649.

The English Courts have reached the same conclusion:

Elliman Sons & Co. vs. Carrington Sons, Ltd. (1901), 2 Ch. Div., 275.
National Phonograph Company, Ltd., vs. Edison-Bell, etc., Phonograph Co., Ltd. (1908), 1 Ch. Div., 335.

Other authorities have reached the same conclusion:

A. Jandorf & Co. vs. Incorporated Association of Manufacturers of Branded Articles,

Koniglichen Kammergerichts, Feb. 28, 1909.

"Predatory Price Cutting as Unfair Trade," by E. S. Rogers, Harvard Law Review, Vol. XXVII, pp. 139–158.

Great Atlantic & Pacific Tea Company vs. Cream of Wheat Company, 224 Fed., 566, 568, affirmed 227 Fed., 46.

Ford Motor Company vs. Benjamin E. Boone, Inc., 244 Fed., 335.

XIII.

This Court is not required to put business enterprise in a rigid and inelastic straight jacket. We are confident that it has no disposition to interfere unduly with the liberty of contract. Much less in maintaining the freedom of trade does it desire to give judicial sanction to unfair and fraudulent trade methods.

We submit that this Court can without violence to its previous decisions say, and the economic welfare of the American people imperatively requires it to say, that a manufacturer has the right to determine, within reasonable limits *and under competitive conditions*, the price for which he will sell his goods, including the imposition upon his immediate vendee as a *part of such price*, of a reasonable resale price.

When he requires, as a consideration for such sale, that his vendee shall not resell at less than a minimum price, he is not projecting his power beyond the fair limit of his contractual rights, and upon the other hand, the vendee is not obliged to buy, and if the conditions be unreasonable, can refuse to buy, and such vendee

whether he buys or refuses to buy, is equally within his constitutional rights.

As was said by Mr. Justice FIELD, in Munn vs. Illinois, 94 U. S., 113:

> "All that is beneficial in property arises from its use, and the fruits of that use, and whatever deprives a person of them, deprives him of all that is desirable or valuable in the title and possession. If the constitutional guarantee extends no further than to prevent a deprivation of title and possession, and allows the deprivation of use and the fruits of that use, it does not merit the encomiums it has received."

As was said by a very distinguished English Judge (SIR GEORGE JESSELL), in Printing Company vs. Sampson, 19 Equity Cases, L. R., 462:

> **"If there is one thing more than any other which public policy requires, it is that men of full age and competent understanding shall have the utmost liberty of contracting, and that contracts when entered into freely and voluntarily, shall be held good, and shall be enforced by courts of justice."**

JAMES M. BECK,
Of Counsel for Appellee.

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DANIEL N. KIRBY,
GILBERT H. MONTAGUE,
Of Counsel.

New York, January 3, 1918.

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IN THE

Supreme Court of the United States.

OCTOBER TERM, A. D. 1917.

No. 363.

BOSTON STORE OF CHICAGO,
Appellant,
vs.
AMERICAN GRAPHOPHONE COMPANY and COLUMBIA GRAPHOPHONE COMPANY,
Appellees.

Upon Certificate from the United States Circuit Court of Appeals in and for the Seventh Circuit.

BRIEF ON BEHALF OF APPELLEES AMERICAN GRAPHOPHONE COMPANY AND COLUMBIA GRAPHOPHONE COMPANY.

ELISHA K. CAMP,
DANIEL N. KIRBY,
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INDEX.

PAGE

Statement 1
The Facts certified, including the Contract 2
Questions certified 7
Summary of Argument 7
Argument 21

I. Question 1: Jurisdiction *does* attach under the patent laws of the United States. The suit involves a contention that appellant is unlawfully violating patent rights, and appellant contends that no patent rights are involved 21
Such a suit "arises under the patent laws" even though it also involves a contract 21
The Fair v. Kohler Die & Spec. Co., 228 U. S., 22, 25 21
Healy v. Sea Gull Spec. Co., 237 U. S., 479, 480 22
Henry v. Dick, 224 U. S., 1, 16 23
Geneva Furniture Co. v. Karpen, 238 U. S., 254, 257 24

II. Questions 2 and 3 should each be answered affirmatively, and should be discussed together, being intimately related in subject matter 24
1. The general nature and extent of a patentee's monopoly right to *sell* the patented article discussed 25
Motion Picture Co. v. Universal Film Co., 243 U. S., 502, 510 25
R. S. U. S., Sec. 4884, Comp. St. 1913, Sec. 9428 26
Bloomer v. McQuewan, 14 How., 539, 549 26
U. S. v. Sanitary Mfg. Co., 191 Fed. Rep., 172, 190 26
(a) The three patent monopoly rights to make, to use and to sell are separate and separable 27
(b) Each right is also divisible 27
Virtue v. Creamery Co., 227 U. S., 8, 32 27
National Phonograph Co. v. Schlegel, 128 Fed. Rep., 733, 735 27
Bauer v. O'Donnell, 229 U. S., 1, 15 27

PAGE

In case the patentee partially exercises a monopoly right, the ungranted portion is reserved by him, and any intrusion thereon by the grantee is an infringement..... 28

A patentee may partially exercise his monopoly right to vend by making a conditional sale of the physical article, *subject to* an express restriction affecting his monopoly right to sell..... 28

The particular form of an instrument of license or grant is not conclusive of its intent..... 29

Straus v. Victor Talking Machine Co., 243 U. S., 490..... 29

The real test is the essential nature of the transaction, as shown by the intent..... 29

2. What method of exercising the patent monopoly right to vend will operate to exhaust the right and free the patented article?..... 29

(a) Any transaction by which the patentee evidences his intent to unconditionally part with his monopoly right to sell, without condition or restriction upon the grant, frees the patented article..... 29

Motion Picture Co. v. Universal Film Co., 243 U. S., 502, 516..... 29

Henry v. Dick, 224 U. S., 1, 19..... 30

Mitchell v. Hawley, 16 Wall., 544, 547..... 30

(b) When a patentee unconditionally sells the patented article to one who buys for use in ordinary pursuits of life, the presumption is that he intends to free the article..... 30

Bloomer v. McQuewan, 14 How., 539, 549..... 30

Adams v. Burke, 17 Wall., 453, 456..... 30

But such sale must be unconditional..... 30

(c) The distinction between a grant of the right to *make* and *vend*, and a grant of the right to *use*, discussed..... 30

Cases deciding that a sale of a patented article whose value is in its use, frees the article, were instances of *unconditional* sales..... 31

Bloomer v. McQuewan, 14 How., 539, 549..... 31

Wilson v. Rousseau, 4 How., 646.....31, 33

Chaffee v. Boston Belting Co., 22 How., 217, 223 32

Bloomer v. Millinger, 1 Wall., 340, 351..... 33

PAGE

Mitchell v. Hawley, 16 Wall., 544, 547, 548 34
Adams v. Burke, 17 Wall., 453, 455, 456 35
Paper Bag Cases, 105 U. S., 766 39
Morgan Envelope Co. v. Albany Paper Co., 152 U. S., 425, 432 39
Keeler v. Standard Folding Bed Co., 157 U. S., 659, 661, 664, 668 39
Henry v. Dick, 224 U. S., 1, 19 41
Bauer v. O'Donnell, 229 U. S., 1, 15 42
Straus v. Victor Talking Machine Co., 243 U. S., 490, 501 42

(*d*) The distinction discussed, between the title to the corporeal property in the physical article which embodies a patent, and the incorporeal right to exercise the patent monopoly in respect of such article 43
De La Vergne Mach. Co. v. Featherstone, 147 U. S., 209 43
Henry v. Dick, 224 U. S., 1, 24 43
U. S. Copyright Act of March 4, 1909, Sec. 41 .. 43

Since said two kinds of property are distinct subject matters as to a patented article, the fact that the patentee intends to dispose of one such kind of property, does not necessarily indicate that he also intends to dispose of the other kind of property 44

In each case the intent should be ascertained as to each kind of property 44

Said distinction is pointed out in Henry v. Dick, 224 U. S., 1, at 24 44
Stephens v. Gladding, 17 How., 447 46
Stephens v. Cady, 14 How., 528 46

A patentee may, as a part of the act of delivering the article to his immediate distributee for a gross consideration, but subject to reserved restrictions upon the right of resale, lawfully impose such restrictions in exercising his monopoly right to sell, if such restrictions be expressed in his written agreement with such distributee evidencing said transaction 47

The case at bar does not rest upon "*mere notice*" attached to patented articles, because *there was a direct restrictive agreement between the patentee and his immediate licensee or vendee* 48

PAGE

Whether or not a patentee, in dealing with his monopoly right to sell, owns or retains title to the *physical article*, is not conclusive as to his intent in disposing of his monopoly right to sell 48

He may *conditionally* dispose of the right *to sell*, even though he had or has no title to the article itself 48

Bement v. Harrow Co., 186 U. S., 70, 88, 91, 92 and 93 49

The principle decided in the Bement case also supports the proposition that a conditional sale of the article, subject to a reserved part of the monopoly right to sell, rests upon the patent laws 49–53

The principles established in the Bement case were not modified by the later cases 53, 60, 64

Thus, Bobbs-Merrill Co. v. Straus, 210 U. S., 339, was limited to an effort to enforce a price restriction by "mere notice" 54

Dr. Miles Medical Co. v. Park, 220 U. S., 373, 405, involved no question of patent law 56

Henry v. Dick, 224 U. S., 1, involved an effort by "mere notice" to draw within the patent monopoly articles which were *unpatented* 57

The case at bar is the suit of a patentee against one with whom he has contracted concerning the subject matter within the scope of the patent, viz., the right to sell the patented article, and to restrain, as an infringement, an act done in violation of the contract 58

Motion Picture Co. v. Universal Film Co., 243 U. S., 502, also involved an effort by "mere notice" to extend the scope of the patent to matters not covered thereby 58–60

Bauer v. O'Donnell, 229 U. S., 1, 9, 11, 12, 13 and 16. was another case of "mere notice." The patentee did not still *hold* the monopoly right to sell 60

Said recent cases contain strong intimations that a reservation of price control of patented articles would have been held valid if evidenced by a direct agreement between the patentee and the grantee, by which the patentee evidenced a clear intent to retain a part of his monopoly right to sell 64, 65

PAGE

Comments on certain decisions by inferior Federal Courts prior to the Bauer (Sanatogen) case 65

National Phonograph Co. v. Schlegel, 128 Fed. Rep., 733, 735 65

U. S. v. Keystone Watch Co., 218 Fed. Rep., 502, 514 66

Victor Talking Machine Co. v. The Fair, 123 Fed. Rep., 424, 425 67

Comments on certain decisions by inferior Federal Courts interpreting the Bauer case 68

American Graphophone Co. v. Boston Store, 225 Fed. Rep., 785. (The opinion in the case at bar in the District Court, printed in full) 68

Ford v. Union Motor Sales Co., 244 Fed. Rep., 156, 157 75

Ford v. Boone, 244 Fed. Rep., 335, 340 75

The attempted distinction (made in Ford v. Union Motor Sales Co., 225 Fed. Rep., D. C. Ohio, 373, at 379), between a patentee's selling the *right to sell* the patented article (licensing *to sell* on conditions *as to resale*),—and selling *the article itself on conditions as to resale*, discussed as not sound 75

American Graphophone Co. v. Boston Store, 225 Fed., 785, at 787 76

The "gross consideration" feature of question 3 discussed 78

The fact that the gross money consideration was paid, is not conclusive upon the question whether the patentee *intended to free the article*, but is merely one of the evidential facts to be considered in determining the ultimate fact, the *intent* 78

In the case at bar the future observance by the licensee or purchaser, of the restrictions on resale expressed in the agreement, was of far greater value to the patentee than the money consideration 79

The so-called "price maintenance system" of appellees discussed 80

The mere fact that there *is a contract* between the patentee and his grantee does not force the conclusion that his right and remedy rest solely upon contract, and not

PAGE

at all upon the patent law, if the subject matter of the contract consists in part of a monopoly right which is also the subject matter of the suit 82

A review of cases, cited in the dissenting opinion in the *Dick* case, showing when the right and remedy rest solely *upon contract* 82

Keeler v. Standard Folding Bed Co., 157 U. S., 659-666 82

Bloomer v. McQuewan, 14 How., 539 87

Mitchell v. Hawley, 16 Wall., 544 83

Adams v. Burke, 17 Wall., 453 83

Henry v. Dick, 224 U. S., 1, 56 83

Wilson v. Sandford, 10 How., 99, 101, 102 84

Briggs v. U. S. M. Co., 239 U. S., 48 86

Hartshorn v. Day, 19 How., 211, 222 87

Albright v. Teas, 106 U. S., 613, 617 88

Dale Co. v. Hyatt, 125 U. S., 46, 48 and 49 88

Keeler v. Standard Folding Bed Co., 157 U. S., 659 89

Excelsior Wooden Pipe Co. v. Pacific Bridge Co., 185 U. S., 282 89

Bement v. National Harrow Co., 186 U. S., 70 .. 90

All of said cases involved primarily, some personal covenant of the licensee or vendee, like his agreement *to pay royalty*, the subject matter of which was *outside the scope of the patent monopoly;* therefore they do not sustain the proposition that the *mere existence of a contract* makes the right and remedy rest upon the contract alone. On the contrary, they support our contention that when the covenant or the *agreed* limitation on the right granted by the patentee, primarily involves one of the patent monopoly rights, then the case rests also upon the patent laws 86

3. Application of the foregoing legal conclusions to the agreement and other facts certified in the case at bar, as indicating the appropriate answers to questions 2 and 3 92

Comment on the facts certified 92

Copy of the contract 92

The primary subject matter of the contract and suit is the patentee's monopoly right *to sell* 95

PAGE

The contract and transaction construed as to the disposal made of the physical articles 95

Also as to the incorporeal right to sell, showing that the intent was to sell the physical articles, *subject, however,* to a reservation of and limitation upon the monopoly right to sell 96

The sale of the patented articles was a conditioned or restricted, not an *unconditional* one, and did not free the articles 96

The dealer received the articles expressly subject to reserved restriction on his right to sell 96

The case at bar is not an effort *to extend* the patent statute *beyond the scope of the patent rights;* nor to *draw back* under the patent statute, articles which had previously been freed therefrom 99

Direct contractual relationship exists, and the patentee still retains his monopoly hold upon the right to sell .. 100

Questions 2 and 3 should be answered affirmatively 102

III. Question 4: "If jurisdiction attaches solely by reason of diversity of citizenship, do the recited facts constitute a cause of action?" 102

1. The general rule for which the Sherman Act stands 105

Standard Oil Co. v. United States, 221 U. S., 1 .. 105

United States v. American Tobacco Company, 221 U. S., 106 106

Continental Wall Paper Company v. Voight & Sons Co., 212 U. S., 227 107

United States v. Union Pacific R. R. Co., 226 U. S., 61 107

United States v. Reading Company, 226 U. S., 324 108

Nash v. United States, 229 U. S., 373 108

Eastern States Retail Lumber Dealers Association v. United States, 234 U. S., 600 109

United States v. E. I. DuPont de Nemours & Co., 188 Fed., 127 109

United States v. Hamburgh American S. S. Line, 216 Fed., 971 110

PAGE

Great Atlantic & Pacific Tea Co. v. Cream of Wheat Co., 224 Fed., 566 111
United States v. Quaker Oats Co., 232 Fed., 499. 111
2. In the light of the general rule for which the Sherman Act stands, what is the particular rule for which the Sherman Act stands in respect of arrangements in the nature of so-called resale price maintenance presented in some of the cases heretofore decided by this Court and by other Federal Courts 111
Dr. Miles Medical Company v. John D. Park & Son Company, 220 U. S., 373 112
Great Atlantic & Pacific Tea Co. v. Cream of Wheat Company, 224 Fed., 566, 568 116
United States v. Quaker Oats Company, 232 Fed., 499, 502 116
Phillips v. Iola Portland Cement Company, 125 Fed., 593 117
Ford Motor Company v. Benjamin E. Boone, Inc., 244 Fed., 335 117
Grogan v. Chaffee, 156 Cal., 611 118
Ghirardelli v. Hunsicker, 164 Cal., 355 118
Fisher Flouring Mills v. Swanson, 76 Wash., 649 119
United States v. Addyston Pipe and Steel Company, 85 Fed., 271, 281-283 126
John D. Park & Sons Company v. Hartman, 153 Fed., 24 127
Bobbs-Merrill Company v. Straus, 210 U. S., 339 129
Bauer v. O'Donnell, 229 U. S., 1 130
3. Does public policy, independently of the Sherman Act, suggest any other rule applicable to the agreement and other facts certified in this case? 139
John D. Park & Sons Company v. Hartman, 153 Fed., 24, 39 139
Dr. Miles Medical Company v. Park & Sons Company, 220 U. S., 373, 404, 405 139
Straus v. Victor Talking Machine Company, 243 U. S., 490, 500, 501 140
Standard Oil Company v. United States, 221 U. S., 1, 49-64 140

PAGE

United States v. American Tobacco Company, 221 U. S., 106, 178–181 141

Bitterman v. Louisville & Nashville R. R. Co., 207 U. S., 205, 222 141

Sperry & Hutchinson Company v. Mechanics' Clothing Company, 128 Fed., 800 141

Sperry & Hutchinson Company v. Weber & Company, 161 Fed., 219 141

4. Application of the pertinent legal conclusions to the agreement and other facts certified in the case at bar, as indicating the appropriate answer to Question 4 144

Continental Wall Paper Co. v. Voight & Sons Co., 212 U. S., 227 146

Addyston Pipe & Steel Co. v. United States, 175 U. S., 211, 247 146

Ford Motor Company v. Benjamin E. Boone, Inc., 244 Fed., 335, 342 146

Muller v. Oregon, 208 U. S., 412, 421 147

All the inferences deducible from the facts certified in the present case tend, indeed, to sustain the validity of the agreement herein 147

Neither the Sherman Act nor public policy is offended by an arrangement in the nature of so-called resale price maintenance in any particular case where there is an absence of monopolistic features, where preeminent good-will attaches to the article, and where the arrangement is limited to the requirements and necessities of this good-will and to the manufacturer's immediate vendee with whom the manufacturer is in a direct contractual relation 147

The facts certified clearly bring the present case within the above rule. Each of the three requisites indicated in above statement of the rule exists here 147

Monopolistic features are absent 147

This Court will "take judicial cognizance of all matters of general knowledge" (*Muller vs. Oregon*, 208 U. S., 412, 421) 147

PAGE

There is nothing in the facts certified tending to indicate that Columbia records control or monopolize the entire field of competitive commerce in phonograph records 148

The facts, certified, which bear upon the method of marketing 149

The "preeminent good-will" element of the above rule exists in the facts of the case at bar 150

The third element also exists, viz., the arrangement, or marketing element, shown in the case at bar does not go beyond what is reasonably necessary to protect the good-will of the manufacturer by enabling him "to realize the value of his good-will" 150

The immediate and necessary result of price cutting is an impairment of the trade reputation and good-will of the manufacturer in respect of his goods of that brand 151

Another necessary result is that the manufacturer is forced to compete with himself, with his own product 151

That the attempted restriction upon resale prices is reasonable in its effect also appears when the unfairness of holding otherwise is considered 152

Question 4 should be answered affirmatively 155

Cases Cited.

PAGE

Adams v. Burke, 17 Wall., 453.....9, 12, 35–37, 39, 40, 42, 83
Addyston Pipe & Steel Co. v. United States, 175 U. S., 211.....20, 146
Albright v. Teas, 106 U. S., 613.....13, 88
Allgyer v. Louisiana, 165 U. S., 576.....148
American Graphophone Co. v. Boston Store, 225 Fed. Rep., 785.....11, 12, 68–74
(The opinion in the case at bar in the District Court, printed in full).
Bauer v. O'Donnell, 229 U. S., 1..8, 9, 11, 16, 27, 42, 60, 61–64, 130
Bement v. Harrow Co., 186 U. S., 70..10, 13, 48, 49, 50, 51, 52, 90
Bitterman v. Louisville & Nashville R. R. Co., 207 U. S., 205.....19, 141
Bloomer v. McQuewan, 14 How., 539....8, 9, 12, 26, 31, 35, 40, 83, 87
Bloomer v. Millinger, 1 Wall., 340.....9, 33
Bobbs-Merrill v. Straus, 210 U. S., 339....11, 16, 54, 55, 129
Briggs v. United Shoe M. Co., 239 U. S., 48.....12
Chaffee v. Boston Belting Co., 22 How., 217.....9, 32
Continental Wall Paper Co. v. Voight & Sons, 212 U. S., 227.....14, 20, 107, 110, 146
Dale Co. v. Hyatt, 125 U. S., 46.....13, 88, 89
Dr. Miles Medical Co. v. John D. Park & Sons Co., 220 U. S., 373.....11, 18, 56, 112–115, 139
De La Vergne v. Featherstone, 147 U. S., 209.....9, 43
Eastern States Retail Lumber Ass'n v. United States, 234 U. S., 600.....14, 109
Excelsior Wooden Pipe Co. v. Pacific Bridge Co., 185 U. S., 282.....13, 89
Fisher Flouring Mills v. Swanson, 76 Wash., 649.....15, 16, 116, 119, 120, 124, 125, 133–138
Ford v. Boone, 244 Fed. Rep., 335....11, 15, 20, 75, 116, 117, 118, 121, 123, 124, 146
Ford v. Union Motor Sales Co., 244 Fed. Rep., 156.....11, 75
Ford v. Union Motor Sales Co., 225 Fed. Rep., 373.....12, 75
Ghirardelli v. Hunsicker, 164 Cal., 355.....15, 16, 116, 118, 131, 132, 133

PAGE

Geneva Furniture Co. v. Karpen, 238 U. S., 254 ..... 7, 24
Great Atlantic & Pacific Tea Co. v. Cream of Wheat Co., 224 Fed. Rep., 566 ..... 15, 116, 119, 120, 122, 123
Grogan v. Chaffee, 156 Cal., 611 ..... 15, 116, 118
Hartshorn v. Day, 19 How., 211 ..... 13, 87, 88
Healy v. Sea Gull Spec. Co., 237 U. S., 479 ..... 7, 22, 24
Heaton Peninsula Button Fastener Co. v. Eureka Specialty Co., 27 Fed. Rep., 288 50
Henry v. Dick, 224 U. S., 1 ..... 7, 8, 9, 10, 11, 12, 23, 27, 30, 41, 43, 44, 57, 58, 83, 84
Keeler v. Standard Folding Bed Co., 157 U. S., 659 ..... 9, 12, 13, 39, 40, 82, 83, 89
Muller v. Oregon, 208 U. S., 412 147
Mitchell v. Hawley, 16 Wall., 544 ..... 8, 9, 12, 30, 34, 35, 37, 40, 83
Morgan Envelope Co. v. Albany Paper Co., 152 U. S., 425 ..... 9, 39
Motion Picture Co. v. Universal Film Co., 243 U. S., 502 ..... 7, 8, 11, 25, 26, 29-30, 58
Nash v. United States, 229 U. S., 373 ..... 14, 108, 109
National Phonograph Co. v. Schlegel, 128 Fed. Rep., 773 ..... 8, 11, 27, 59, 65, 66
Paper Bag Cases, 105 U. S., 766 ..... 9, 39
John D. Park & Sons Co. v. Hartman, 153 Fed. Rep., 24 ..... 16, 18, 19, 127, 128, 129, 140, 141
Phillips v. Iola Portland Cement Co., 125 Fed. Rep., 593 ..... 15, 116, 117
R. S., U. S., Sec. 4884, Comp. St., 1913, Sec. 9428 8
Sperry & Hutchinson Co. v. Mechanics' Clothing Co., 128 Fed. Rep., 800 ..... 19, 141, 142, 143
Sperry & Hutchinson Co. v. Weber & Co., 161 Fed. Rep., 219 ..... 19, 141, 142
Standard Oil Co. v. United States, 221 U. S., 1 ..... 14, 18, 105, 106, 140
Stephens v. Cady, 14 How., 528 ..... 10, 46
Stephens v. Gladding, 17 How., 447 ..... 10, 46
Straus v. Victor Talking Machine Co., 243 U. S., 490 ..... 8, 9, 18, 42, 140
The Fair v. Kohler Die & Spec. Co., 228 U. S., 22 ..... 7, 21, 22, 23, 24

PAGE

United States v. Addyston Pipe & Steel Co., 85 Fed. Rep., 271 ..... 16, 126
United States v. American Tobacco Co., 221 U. S., 106 ..... 14, 18, 106, 107, 141
U. S. Copyright Act of March 4, 1909, Sec. 41 ..... 9, 43
United States v. E. I. DuPont de Nemours & Co., 188 Fed. Rep., 127 109
United States v. Hamburgh American S. S. Line, 216 Fed. Rep., 971 110
United States v. Keystone Watch Co., 218 Fed. Rep., 502 ..... 11, 66–67
United States v. Quaker Oats Co., 232 Fed. Rep., 499 ..... 15, 116, 117, 120
United States v. Reading Co., 226 U. S., 324 ..... 14, 108
United States v. Sanitary Mfg. Co., 191 Fed. Rep., 172 ..... 8, 26
United States v. Union Pacific R. R. Co., 226 U. S., 61 ..... 14, 107
Victor Talking Machine Co. v. The Fair, 123 Fed. Rep., 424 ..... 11, 67, 68
Virtue v. Creamery Co., 227 U. S., 8 ..... 8, 27
Wilson v. Rousseau, 4 How., 646 ..... 9, 31
Wilson v. Sandford, 10 How., 99 ..... 12, 84, 85, 86

IN THE

Supreme Court of the United States,

OCTOBER TERM, A. D. 1917.

No. 363.

BOSTON STORE OF CHICAGO, Appellant, vs. AMERICAN GRAPHOPHONE COMPANY, and COLUMBIA GRAPHOPHONE COMPANY, Appellees.	Upon Certificate from the United States Circuit Court of Appeals in and for the Seventh Circuit.

BRIEF ON BEHALF OF APPELLEES AMERICAN GRAPHOPHONE COMPANY AND COLUMBIA GRAPHOPHONE COMPANY.

Statement.

The brief filed on behalf of appellant does not set out in full the statement of facts certified to this Honorable Court by the Court of Appeals, nor a copy of the agreement contained therein, which constitutes one of the principal facts certified.

Since the complete statement is not long, and we think no part of it should be omitted from consideration, we here set

it out in full in order that it may appear in the briefs, without making reference to the certificate itself necessary.

The Certified Facts, Including the Agreement.

" Appeal from the United States District Court, Northern District of Illinois, Eastern Division.

" In this case certain questions of law arise, concerning which this court desires the advice of the Supreme Court.

" Appellee, the American Company, a West Virginia corporation, with its principal office in Bridgeport, Connecticut, as assignee of certain Letters Patent of the United States, is the manufacturer under said patents of sound records for use upon graphophones.

" Appellee, the Columbia Company, a West Virginia corporation, with its principal office at Washington, D. C., markets the said sound records so manufactured by the American Company, for and as the agent of the American Company.

" Appellant, the Boston Store, an Illinois corporation, with its principal office in Chicago, Illinois, is engaged in the sale of merchandise at retail, and on the 15th day of October, 1912, at Chicago, entered into an agreement in writing with the Columbia Company, acting as such agent of the American Company, as follows :

' No Jobbing Privileges Extended under this Contract.

' *Notice to Purchasers of " Columbia " Graphophones, Grafonolas, Records, and Blanks.*

' All " Columbia " Graphophones, Grafonolas, Records and blanks are manufactured by the American Graphophone Company under certain patents and licensed and sold through its sole sales agent the Columbia Phonograph Company (General), subject to conditions and restrictions as to the persons to whom and the prices at which they may be resold by any person into whose hands they come. Any violation of such conditions or restrictions makes the seller or user liable as an infringer of said patents.

'After reading the foregoing notice and in consideration of current dealers' discounts given to me/us by the Columbia Phonograph Company (General), I/we Hereby Agree to take any Columbia product received by me/us from said company, either directly or through any intermediary, under the conditions and restrictions referred to in said notice and to adhere strictly and be bound by the official list prices established from time to time by said Company and that I/we will neither give away, sell, offer for sale, nor in any way dispose of such goods, either directly or through any intermediary, at less than such list prices, nor induce the sale of such goods by giving away or reducing the price of other goods, nor sell or otherwise dispose of any of said goods, directly or indirectly, outside of the United States, and I/we understand that a breach of this agreement will amount to an infringement of said patents and subject me/us to a suit and damages therefor. I/we admit the validity of all patents under which said product is manufactured and hereby covenant and agree not to question or contest the same in any manner whatsoever. I/We further understand and agree that this license extends the right to market said Columbia product from the below mentioned address only, and that a separate contract is required to market said product from a branch store or stores, or through an agent or agencies at any other point.

'I/We acknowledge the receipt of a duplicate of the foregoing notice and contract and that no representations or guarantees have been made by the salesman on behalf of said Company which are not herein expressed. I/We also acknowledge receipt of the official list prices on all Columbia product in force at the date hereof.

'Dated Oct. 15, 1912.

'Witness F. Austin Coss.

'Signed Boston Store.

'Business Dept. Store.

'Street & No. State and Madison.

'City Chicago State Ill.

'40 & 10%.

'Chicago, Ill.

'Form 1098. Oct. 1st, 1911 U. S.

'Columbia Phonograph Company, General.

'CONTRACT.

'Retail Dealer's "500 Purchase" Price Maintenance.

'Chicago.

'Name Boston Store.
'Date Oct. 15, 1912.
'Rating A. A. A 1.
(if references attach copy.)
'Terms (30 days net 2% 10).
'Credit Limit For requirements.
'Amount of Order, net 502144.

'(See copy of original order attached.)
'O. K. FUHRI.

'CHAS. F. BAER, Manager.

'NOTE.—All orders taken under this contract must be submitted and taken subject to the approval of the Wholesale Department with the information requested. Such stores as come under District supervision should submit such orders through the District Manager.

'Retail Dealer's.
"$500 Purchase" Discounts.
'Subject to Change.

'Purchase Requirements.

'An order for not less than $500 net in one order of Columbia Graphophones, Grafonolas, Records and Supplies, for immediate shipment, exclusive of premium machines and previous purchases, and thereafter the purchase of Columbia Graphophones, Grafonolas, Records and Supplies to an amount aggregating not less than $1,000 net, each year, from the date of making above purchase.

'Dealers must keep on hand at all times sufficient stock for exhibition and sales purposes.

'DISCOUNTS ON MACHINES.

'Commercial Machines and Supplies	No Discount.
Type BC Graphophone	30 and 10 Percent.
Other Types of Graphophones	40 and 10 Percent.
Grafonolas listing less than $100	40 and 10 Percent.
Grafonolas listing at $100 and over	35 and 10 Percent.

'DISCOUNTS ON RECORDS.

'Indestructible cylinder	40 Percent.
65c 10" double disc records	41c net.
75c 10" double disc records	40 Percent.
$1.00 12" double disc records	40 Percent.
Fonotipia and Symphony series, 12" Blue Label, Grand Opera and Concert Selections	40 and 10 Percent.

'Accessories and Parts: Discounts on Repair Parts and miscellaneous supplies same as discounts on machines.

'Special net prices quoted on Records and Cabinets and Needles.

'Terms: Net Thirty Days.
2% Ten Days.

'Delivery: F. O. B. Points of shipment.

'NOTE.—See current Columbia catalogues for list prices on machines, records and supplies.'

"Subsequent thereto and prior to the filing of the bill of complaint, the Columbia Company, acting as the agent of the American Company, in pursuance of said contract delivered in Chicago to the Boston Store a quantity of such phonographic records manufactured by the American Company under said Letters Patent; and the Boston Store paid the Columbia Company the full amount which had theretofore been fixed by the American Company.

"The American Company, acting through its agent, the Columbia Company, employs in the marketing of its phonographic records and its other products a system of price maintenance, by which system it has been its uniform practice to cause its agent, the Columbia Company, to enter into similar contracts as the one above

set forth, in the name of the Columbia Company, with dealers in phonographic records, located in the United States and its territorial possessions, to whom the American Company delivers its product, through the Columbia Company, by which it is provided, in part, that in consideration of the prices at which prescribed quantities of the various said products of the American Company are agreed to be delivered to such dealer, the dealer, in turn, obligates himself or itself in selling such products to adhere strictly to and to be bound by and not to depart from the official list prices promulgated from time to time by the Columbia Company for said products, and further expressly covenants not in any way to dispose of any such products at less than such list prices. The American Company fixes and prescribes the prices of its said products, and said contracts when entered into cover all such products of the American Company which may thereafter from time to time be acquired by such dealers from the Columbia Company, without any new express price restriction contract being entered into at the time when each order for goods subsequent to the entering into of said contract is placed or filed by said dealers.

"In pursuance of said price maintenance system the Columbia Company, acting under said instructions and as the agent of the American Company, entered into contracts similar to that hereinabove set forth with over five thousand dealers in phonographic records located in the United States and its territorial possessions.

" Prior to the filing of the bill of complaint the Boston Store had knowingly sold and at the time of the filing of said bill of complaint was knowingly selling at retail to the public the said records so aforesaid obtained from the Columbia Company, at a price less than the official list prices theretofore established by the American Company and by the Columbia Company.

" The amount in controversy, exclusive of interest and costs, largely exceeds the sum of three thousand dollars."

Upon the above facts, the Court of Appeals has submitted for the advice of this Honorable Court, the following four questions :

1. *Does jurisdiction attach under the patent laws of the United States?*

2. *If so, do the recited facts disclose that some right or privilege granted by the patent laws has been violated?*

3. *Can a patentee, in connection with the act of delivering his patented article to another for a gross consideration then received, lawfully reserve by contract a part of his monopoly right to sell?*

4. *If jurisdiction attaches solely by reason of diversity of citizenship, do the recited facts constitute a cause of action?*

(All italics appearing in quotations in this brief herein are ours, unless otherwise noted.)

Summary of the Argument.

I. QUESTION 1.

Jurisdiction *does* attach under the patent laws of the United States. The suit involves a contention that appellant is unlawfully violating patent rights, and appellant contends that no patent rights are involved.

Such a suit "arises under the patent laws" even though it also involves a contract.

The Fair v. Kohler Die & Spec. Co., 228 U. S., 22, 25.
Healy v. Sea Gull Spec. Co., 237 U. S., 479, 480.
Henry v. Dick, 224 U. S., 1, 16.
Geneva Furniture Co. v. Karpen, 238 U. S., 254, 257.

II. QUESTIONS 2 AND 3,

should each be answered affirmatively, and should be discussed together, being intimately related in subject matter.

(1) The general nature and extent of a patentee's monopoly right *to sell* the patented article discussed.

Motion Picture Co. v. Universal Film Co., 243 U. S., 502, 510.

R. S. U. S., Sec. 4884, Comp. St. 1913, Sec. 9428.
Bloomer v. McQuewan, 14 How., 539, 549.
U. S. v. Sanitary Mfg. Co., 191 Fed. Rep., 172, 190.

(a) The three patent monopoly rights to make, to use and to sell are separate and separable.

(b) Each right is also divisible.

Virtue v. Creamery Co., 227 U. S., 8, 32.
National Phonograph Co. v. Schlegel, 128 Fed. Rep., 733, 735.
Bauer v. O'Donnell, 229 U. S., 1, 15.

In case the patentee partially exercises a monopoly right, the ungranted portion is reserved by him, and any intrusion thereon by the grantee is an infringement.

A patentee may partially exercise his monopoly right to vend by making a conditional sale of the physical article, *subject to* an express restriction affecting his monopoly right to sell.

The particular form of an instrument of license or grant is not conclusive of its intent.

Straus v. Victor Talking Machine Co., 243 U. S., 490.

The real test is the essential nature of the transaction, as shown by the intent.

(2) What method of exercising the patent monopoly right to vend will operate to exhaust the right and free the patented article?

(a) Any transaction by which the patentee evidences his intent to *unconditionally* part with his monopoly right to sell, without condition or restriction upon the grant, frees the patented article.

Motion Picture Co. v. Universal Film Co., 243 U. S., 502, 516.
Henry v. Dick, 224 U. S., 1, 19.
Mitchell v. Hawley, 16 Wall., 544, 547.

(b) When a patentee *unconditionally* sells the patented article to one who buys for use in the ordinary pursuits of life, the presumption is that he intends to free the article.

Bloomer v. McQuewan, 14 How., 539, 549.
Adams v. Burke, 17 Wall., 453, 456.

But such sale must be unconditional.

(c) The distinction between a grant of the right to *make* and *vend*, and a grant of the right to *use*, discussed.

Cases deciding that a sale of a patented article whose value is in its use, frees the article, were instances of *unconditional* sales.

Bloomer v. McQuewan, 14 How., 539, 549.
Wilson v. Rousseau, 4 How., 646.
Chaffee v. Boston Belting Co., 22 How., 217, 223.
Bloomer v. Millinger, 1 Wall., 340, 351.
Mitchell v. Hawley, 16 Wall., 544, 547, 548.
Adams v. Burke, 17 Wall., 453, 455, 456.
Paper Bag Cases, 105 U. S., 766.
Morgan Envelope Co. v. Albany Paper Co., 152 U. S., 425, 432.
Keeler v. Standard Folding Bed Co., 157 U. S., 659, 661, 664, 668.
Henry v. Dick, 224 U. S., 1, 19.
Bauer v. O'Donnell, 229 U. S., 1, 15.
Straus v. Victor Talking Machine Co., 243 U. S., 490, 501.

(d) The distinction discussed, between the title to the corporeal property in the physical article which embodies a patent, and the incorporeal right to exercise the patent monopoly in respect of such article.

De La Vergne Mach. Co. v. Featherstone, 147 U. S., 209.
Henry v. Dick, 224 U. S., 1, 24.
U. S. Copyright Act of March 4, 1909, Sec. 41.

Since said two kinds of property are distinct subject matters as to a patented article, the fact that the patentee

intends to dispose of one such kind of property, does not necessarily indicate that he also intends to dispose of the other kind of property.

In each case the intent should be ascertained as to each kind of property.

Said distinction is pointed out in Henry v. Dick, 224 U. S., 1, at 24.

Stephens v. Gladding, 17 How., 447.
Stephens v. Cady, 14 How., 528.

A patentee may, as a part of the act of delivering the article to his immediate distributee for a gross consideration, but subject to reserved restrictions upon the right of resale, lawfully impose such restrictions in exercising his monopoly right to sell, if such restrictions be expressed in his written agreement with such distributee evidencing said transaction.

The case at bar does not rest upon "mere notice" attached to patented articles, because *there was a direct restrictive agreement between the patentee and his immediate licensee or vendee.*

Whether or not a patentee, in dealing with his monopoly right to sell, owns or retains title to the *physical article*, is not conclusive as to his intent in disposing of his monopoly right to sell.

He may *conditionally* dispose of the right *to sell*, even though he had or has no title to the article itself.

Bement v. Harrow Co., 186 U. S., 70, 88, 91, 92 and 93.

The principle decided in the Bement case also supports the proposition that a conditional sale of the article, subject to a reserved part of the monopoly right to sell, rests upon the patent laws.

The principles established in the Bement case were not modified by the later cases.

Thus, Bobbs-Merrill Co. v. Straus, 210 U. S., 339, was limited to an effort to enforce a price restriction by "mere notice."

Dr. Miles Medical Co. v. Park, 220 U. S., 373, 405, involved no question of patent law.

Henry v. Dick, 224 U. S., 1, involved an effort by "mere notice" to draw within the patent monopoly articles which were *unpatented.*

Motion Picture Co. v. Universal Film Co., 243 U. S., 502, also involved an effort by "mere notice" to extend the scope of the patent to matters not covered thereby.

Bauer v. O'Donnell, 229 U. S., 1, 9, 11, 12, 13 and 16, was another case of "mere notice." The patentee did not still *hold* the monopoly right to sell.

Said recent cases contain strong intimations that a reservation of price control of patented articles would have been held valid if evidenced by a direct agreement between the patentee and the grantee, by which the patentee evidenced a clear intent to retain a part of his monopoly right to sell.

Comments on certain decisions by inferior Federal Courts prior to the Bauer ("Sanatogen") case:

National Phonograph Co. v. Schlegel, 128 Fed. Rep., 733, 735.

U. S. v. Keystone Watch Co., 218 Fed. Rep., 502, 514.

Victor Talking Machine Co. v. The Fair, 123 Fed. Rep., 424, 425.

Comments on certain decisions by inferior Federal Courts interpreting the Bauer case:

American Graphophone Co. v. Boston Store, 225 Fed. Rep., 785. (The opinion in the case at bar in the District Court, printed in full).

Ford v. Union Motor Sales Co., 244 Fed. Rep., 156, 157.

Ford v. Boone, 244 Fed. Rep., 335, 340.

The attempted distinction (made in Ford v. Union Motor Sales Co. (D. C. Ohio), 225 Fed. Rep., 373, at 379), between a patentee's selling the *right to sell* the patented article (licensing *to sell* on conditions *as to resale*),—and selling *the article itself on conditions as to resale*, discussed as not sound.

American Graphophone Co. v. Boston Store, 225 Fed. Rep., 785 at 787.

The "gross consideration" feature of Question 3 discussed.

The fact that the gross money consideration was paid, is not conclusive upon the question whether the patentee *intended to free the article*, but is merely one of the evidential facts to be considered in determining the ultimate fact, the *intent*.

In the case at bar, the future observance by the licensee or purchaser, of the restrictions on resale expressed in the agreement, was of far greater value to the patentee than the money consideration.

The so-called "price maintenance system" of appellees discussed.

The mere fact that there *is a contract* between the patentee and his grantee does not force the conclusion that his right and remedy rests solely upon contract, and not at all upon the patent law, if the subject matter of the contract consists in part of a monopoly right which is also the subject matter of the suit.

A review of cases, cited in the dissenting opinion in the *Dick* case, showing when the right and remedy rest solely *upon contract:*

Keeler v. Standard Folding Bed Co., 157 U. S., 659-666.
Bloomer v. McQuewan, 14 How., 539.
Mitchell v. Hawley, 16 Wall., 544.
Adams v. Burke, 17 Wall., 453.
Henry v. Dick, 224 U. S., 1, 56.
Wilson v. Sandford, 10 How., 99, 101, 102.
Briggs v. U. S. M. Co., 239 U. S., 48.

Hartshorn v. Day, 19 How., 211, 222.
Albright v. Teas, 106 U. S., 613, 617.
Dale Co. v. Hyatt, 125 U. S., 46, 48 and 49.
Keeler v. Standard Folding Bed Co., 157 U. S., 659.
Excelsior Wooden Pipe Co. v. Pacific Bridge Co., 185 U. S., 282.
Bement v. National Harrow Co., 186 U. S., 70.

All of said cases involved primarily some personal covenant of the licensee or vendee, like his agreement *to pay royalty*, the subject matter of which was *outside the scope of the patent monopoly ;* therefore they do not sustain the proposition that the *mere existence of contract* makes the right and remedy rest upon the contract alone. On the contrary, they support our contention that when the covenant or the *agreed* limitation on the right granted by the patentee, primarily involves one of the patent monopoly rights, then the case rests also upon the patent laws.

3. Application of the foregoing legal conclusions to the agreement and other facts certified in the case at bar, as indicating the appropriate answers to Questions 2 and 3.

Comment on the facts certified.

Copy of the contract.

The primary subject matter of the contract and suit is the patentee's monopoly right *to sell.*

The contract and transaction construed as to the disposal made of the physical articles.

Also as to the incorporeal right to sell, showing that the intent was to sell the physical articles, *subject, however,* to a reservation of and limitation upon the monopoly right to sell.

The sale of the patented articles was a conditioned or restricted, not an *unconditional* one, and did not free the articles. The dealer received the articles expressly subject to reserved restriction on his right to sell.

The case at bar is not an effort *to extend* the patent statute *beyond the scope of the patent rights ;* nor to *draw back* under

the patent statute, articles which had previously been freed therefrom.

Direct contractual relationship exists, and the patentee still retains his monopoly hold upon the right to sell.

Questions 2 and 3 should be answered affirmatively.

III. (QUESTION 4)

should be answered in the affirmative.

Even though articles be patented, and these patents afford certain special rights and remedies, this fact in no way warrants the inference that such articles are commercially or economically monopolies.

(1) The general rule for which the Sherman Act stands discussed.

Standard Oil Co. v. United States, 221 U. S., 1.
United States v. American Tobacco Company, 221 U. S., 106.
Continental Wall Paper Company v. Voight & Sons Co., 212 U. S., 227.
United States v. Union Pacific R. R. Co., 226 U. S., 61.
United States v. Reading Company, 226 U. S., 324.
Nash v. United States, 229 U. S., 373.
Eastern States Retail Lumber Dealers' Association v. United States, 234 U. S., 600.

No agreement violates the Sherman Act unless, in the light of reason upon all the facts and circumstances of the particular case, it constitutes such an undue restriction of competition in some line of commerce as to monopolize or (unduly) restrain trade.

(2) In the light of the general rule for which the Sherman Act stands, what is the particular rule for which the Sherman Act stands in respect of arrangements in the nature of

so-called resale price maintenance presented in some of the cases heretofore decided by this Court and by the other federal courts ?

Agreements in the nature of so-called price maintenance are not exceptions to the general rule for which the Sherman Act stands. No agreement, therefore, in the nature of the so-called price maintenance violates the Sherman Act unless, in the light of reason upon all the facts and circumstances of the particular case, it constitutes such an undue restriction of competition in some line of commerce as to monopolize or (unduly) restrain trade.

Dr. Miles Medical Company v. John D. Park & Sons Co., 220 U. S., 373, discussed, and distinguished on the ground that the conceded facts there showed *(a)* that Dr. Miles medicines were *sui generis* and had no competitors, and commercially were a "monopoly," and *(b)* that Dr. Miles Company's system of contracts controlled both the resale price of the manufacturer's immediate vendee and also the resale price of the subvendee of the manufacturer's vendee, and *(c)* that in the Dr. Miles case there was nothing akin to the sale of good-will or the conveyance of any right by which purchasers of Dr. Miles medicines could in any sense compete with Dr. Miles Company.

Discussion of the following cases in the light of the foregoing distinctions :

Great Atlantic & Pacific Tea Co. v. Cream of Wheat Company, 224 Fed. Rep., 566.

United States v. Quaker Oats Company, 232 Fed. Rep., 499.

Phillips v. Iola Portland Cement Company, 125 Fed. Rep., 593.

Ford Motor Company v. Benjamin E. Boone, Inc., 244 Fed. Rep., 335.

Grogan v. Chaffee, 156 Cal., 611.

Ghirardelli v. Hunsicker, 164 Cal., 355.

Fisher Flouring Mills v. Swanson, 76 Wash., 649.

Articles exist, therefore, whose circumstances in respect of competition from rival articles in the same line of commerce, and whose characteristics in respect of popularity, good-will, demand and market, acquired through legitimate effort and expenditure by the manufacturer in sales promotion and advertising, wholly distinguish them from the circumstances and characteristics of Dr. Miles' medicines as described in Dr. Miles' case, and squarely place restrictive agreements upon the resale price of particular brands of such articles in the very category of agreements conceded by this Court in the Dr. Miles case to be lawful.

U. S. v. Addyston Pipe and Steel Company, 85 Fed. Rep., 271, quoted upon the point that agreements by purchasers not to use property purchased in competition with the business retained by the vendor are agreements " in partial restraint of trade " which " are generally upheld as valid."

Discussion of the following cases in the light of the foregoing distinctions:

John D. Park & Sons Company v. Hartman, 153 Fed. Rep., 24.

Bobbs-Merrill Company v. Straus, 210 U. S., 339.

Bauer v. O'Donnell, 229 U. S., 1.

Quotations from Ghirardelli v. Hunsicker, 164 Cal., 355, and Fisher Flouring Mills Company v. Swanson, 76 Wash., 649, in which the same distinctions have been noted in respect of the decisions above mentioned of this Court and other Federal Courts.

From the analysis of the authorities above, this rule emerges:

No agreement in the nature of so-called resale price maintenance violates the Sherman Act unless, in the light of reason upon all the facts and circumstances of the particular case, it constitutes such an undue restriction of competition in some lines of commerce as to monopolize or (unduly) restrain trade. " The surrounding circumstances," " all the circumstances

connected with the transaction," " the facts and circumstances of each individual case " and " all the surrounding circumstances, which may be multifarious " must " be considered in order to determine the fundamental question whether the necessary effect of the combination is to restrain interstate commerce." First among the " facts and circumstances " so to be considered are *(a)* the presence or absence of monopolistic features, viz.: Is the article *sui generis*, without competitors, and commercially the only article in its class ; or is it only one of many articles in its class, and distinguishable from competing articles in the same line of commerce only by some brand or trade name or other characteristic feature? ; and *(b)* the presence or absence of pre-eminent good-will features, viz.: Has the manufacturer, through sales promotion, advertising, or otherwise, rallied around his particular article such popularity, good will, and demand, in truth such a market, that it appears as an economic and commercial fact that the manufacturer, rather than ths dealer, has created the consumer demand and market for it, and that the consumer, when he purchases it, holds the manufacturer, rather than the dealer, responsible, and regards the manufacturer, rather than the dealer, as the real principal, even though it is the dealer who actually passes the title; and *(c)* the extent of the restrictive arrangement, viz. : Does the arrangement transcend the requirements and necessities of the good-will features, or restrict the resale price beyond the manufacturer's immediate vendee; or is the arrangement limited to the requirements and necessities of the good-will features, and furthermore simply an agreement between the manufacturer and his immediate vendee restricting only the price at which the latter shall resell the particular article? All these " facts and circumstances " must be considered in " each individual case." If there be found in any particular " individual case " *(a)* an absence of monopolistic features and *(b)* a pre-eminence of good-will features and *(c)* a limitation of the restrictive arrangement to the require-

ments and necessities of the good-will features and a limitation of the restrictive arrangement to the manufacturer's immediate vendee, with whom the manufacturer is in a direct contract relation, then, by the general rule of the Sherman Act discussed in the preceding subdivision of this Point, and by the particular rule of the Sherman Act set forth in the decisions examined above under this present subdivision, there is no violation of the Sherman Act.

(3) Does public policy, independently of the Sherman Act, suggest any other rule applicable to the agreement and other facts certified in this case?

The rule against restraints upon the alienation of personal property discussed:

John D. Park & Sons Company v. Hartman, 153 Fed. Rep., 24, 39.

Dr. Miles Medical Company v. John D. Park & Sons Company, 220 U. S., 373, 404, 405.

Straus v. Victor Talking Machine Company, 243 U. S., 490, 500, 501.

The rule against restraints upon the alienation of personal property is caught up and fully expressed by, and merged in, the "generic enumeration" and "generic designation" and comprehensive prohibitions of the Sherman Act.

Standard Oil Co. v. United States, 221 U. S., 1.

United States v. American Tobacco Company, 221 U. S., 106.

The rule against restraints upon the alienation of personal property is against limitations and qualifications upon the *property* interest, the *title*, of the purchaser and sub-purchasers of the article, and so far as concerns the *contractual* capacity of the vendor, the rule does not operate except against attempts by contract to control *sub-purchasers* as distinguished from purchasers; and even when thus limited and qualified, the rule does not apply to certain articles whose

acquired, intangible attributes distinguish them commercially from similar commodities in the same line of commerce.

Discussion of the following cases illustrating the foregoing principles:

John D. Park & Sons Company v. Hartman, 153 Fed. Rep., 24;

Bitterman v. Louisville & Nashville R. R. Co., 207 U. S., 205;

Sperry & Hutchinson Company v. Mechanics' Clothing Company, 128 Fed. Rep., 800;

Sperry & Hutchinson Company v. Weber & Company, 161 Fed. Rep., 219.

None of the considerations giving rise to the rule against restraints upon the alienation of personal property apply where the manufacturer, through sales promotion, advertising or otherwise, has rallied around his particular article such popularity, good-will, and demand, in truth such a market, that it appears as an economic and commercial fact that the manufacturer, rather than the dealer, has created the consumer demand and market for it, and that the consumer, when he purchases it, holds the manufacturer, rather than the dealer, responsible, and regards the manufacturer, rather than the dealer as the real principal, even though it is the dealer who actually passes the title; and where, furthermore, the restrictive arrangement is limited to the requirements and the necessities of these good-will features and restricts only the price at which the manufacturer's immediate vendee shall resell the particular article.

(4) Application of the pertinent legal conclusions to the agreement and other facts certified in the case at bar, as indicating the appropriate answer to Question 4.

Though the Columbia products covered by the agreement in this case are patented, and though these patents afford the American Company and the Columbia Company certain special rights and remedies as shown under earlier Points of this brief, this fact in no way warrants the inference that

Columbia products are *sui generis*, or without competition, or commercially are monopolies, and in no way alters the fact which, indeed, is now a matter of general knowledge, that the Columbia products are not *sui generis*, and commercially are not a monopoly, but are articles subject to keen competition from many rival articles in the same line of commerce.

"The surrounding circumstances," "all the circumstances connected with the transaction," "the facts and circumstances of each individual case," and "all the surrounding circumstances, which may be multifarious," must "be considered in order to determine the fundamental question whether the necessary effect of the combination is to restrain interstate commerce."

> Continental Wall Paper Company v. Voight & Sons Co., 212 U. S., 227, 266.
>
> Addyston Pipe & Steel Co. v. United States, 175 U. S., 211, 247.

This Court, it is submitted, will not indulge in presumptions of fact in favor of the appellant and against the appellees, and against the lower court, and against the validity of the agreement in this case.

> Ford Motor Company v. Benjamin E. Boone, Inc., 244 Fed. Rep., 335.

Neither the Sherman Act nor public policy is offended by an arrangement in the nature of so-called resale price maintenance in any particular case where there is an absence of monopolistic features, where preeminent good-will attaches to the article, and where the arrangement is limited to the requirements and necessities of this good-will and to the manufacturer's immediate vendee with whom the manufacturer is in a direct contractual relation.

The facts certified clearly bring the present case within the above rule. Each of the three requisites indicated in above statement of the rule exists here.

Question 4 should be answered affirmatively.

Argument.

(All italics appearing in quotations in this brief herein are ours, unless otherwise noted.)

I. (QUESTION 1).

"Does jurisdiction attach under the patent laws of the United States?"

We respectfully contend that it does, and that the above question (No. 1) should be answered in the affirmative.

Counsel for appellant now concede the correctness of the above contention (Appellant's brief, pp. 8–12), so that before this Court, counsel for appellant and counsel for appellees are in accord upon it; nevertheless, since it involves jurisdiction, and has been certified by the Court of Appeals for the advice of this Court, we assume that the question should be presented upon its merits. And since appellant's discussion of the authorities bearing upon Question 1 omits certain features which we regard as relevant and useful, we respectfully submit the following suggestions.

It sufficiently appears from the facts certified that appellees, (patentees), are contending in the injunction suit below, that appellant, (the Boston Store), is unlawfully violating patent rights which were reserved by a patentee, as evidenced by a direct agreement between the patentee and its immediate licensee or vendee; and that, on the other hand, appellant is contending that no patent rights are involved.

That such a suit,—*even though it also draws into controversy a construction of the license or conditional sale agreement,* and such rules of general law as may be pertinent thereto,—*does "arise under the patent laws,"* seems no longer open to debate since the decision of this Court in *The Fair vs. Kohler Die & Spec. Co.*, 228 U. S., 22.

In that case the Kohler Company sued "The Fair," (a Chicago department store), to enjoin the latter from selling at less than $1.50 each, certain patented gas heating devices

which the Kohler Company claimed the exclusive right, under letters patent, to make and sell. The bill showed that the Kohler Company, in selling said devices, imposed a condition that they should not be resold at less than $1.50, and that a sale in violation of such condition would be an infringement. "The Fair" defended on the grounds: that the articles sold by it had been purchased from the Kohler Company *by a jobber who had paid the full price*; that the articles thus became *freed from the monopoly*; that therefore no question *arose under the patent laws*, and that (there being no separate ground of diverse citizenship), the Federal court had no jurisdiction.

The appeal presented the question of jurisdiction only, and thus involved a question analogous to the question of jurisdiction certified in the case at bar by Question 1.

The decision in The Fair case was referred to later by this court (in *Healy v. Sea Gull Spec. Co.*, 237 U. S., 479, 480), as "the deliberate judgment of the Court," and as decisive of the Healy case. In deciding The Fair case, this Court said (228 U. S., 22 at p. 25):

> "Jurisdiction is authority to decide the case either way. Unsuccessful as well as successful suits may be brought upon the act, and a decision that a patent is bad, whether on the facts or the law, is as binding as one that it is good. See *Fauntleroy v. Lum*, 210 U. S., 230, 235.
>
> "No doubt if it should appear that the plaintiff was not really relying upon the patent law for his alleged rights, or if the claim of right were frivolous, the case might be dismissed. In the former instance the suit would not really and substantially involve a controversy within the jurisdiction of the court. *Excelsior Wooden Pipe Co. v. Pacific Bridge Co.*, 185 U. S., 282, 287, 288, and in the latter the jurisdiction would not be denied, except possibly in form. *Deming v. Carlisle Packing Co.*, 226 U. S., 102, 109. But *if the plaintiff really makes a substantial claim under an act of Congress* there

is *jurisdiction whether the claim ultimately be held good or bad.* * * *

" In this case the plea though purporting to go to the jurisdiction of the Court merely means *that the patent law does not give a patentee a right to impose such a condition as the plaintiff attempted to impose upon second purchasers of the device.* The plaintiff no doubt maintains that the law does give him that right, and that even if the alleged infringements are confined to the acts admitted by the plea *they are infringements* none the less. The bill hardly can be confined to that claim, but if it were, it is made in good faith and is not frivolous, *it is a claim of right under the patent law and the circuit court properly took jurisdiction of the case. Excelsior Wooden Pipe Co. v. Pacific Bridge Co.*, 185 U. S., 282, 295 ; *White v. Rankin*, 144 U. S., 628, 635, 636, 639."

The decision of this Court in The Fair case, as shown by the above quotation from the opinion, is in harmony with the rule as announced in the majority opinion in the earlier case of *Henry v. Dick*, 224 U. S., 1 (the " Mimeograph " case), where this Court said (p. 16) :

" The test of jurisdiction is this : Does the complainant ' set up some right, title or interest under the patent laws of the United States, or make it appear that some right or privilege will be defeated by one construction, or sustained by another, of those laws' ? "
* * *

" *Whether a patentee may lawfully impose such restrictions*, and *whether their violation constitutes an infringement*, are *obviously questions arising under the patent law.* In *Littlefield v. Perry*, 21 Wall., 205, 222, this court said : ' An action which raises a question of infringement is an action arising " under the law," * * *. Such a suit *may involve the construction of a contract* as well as *the patent*, but *that will not oust the court of its jurisdiction.* If *the patent is involved it* carries with it the whole case.' "

The decision in The Fair case on the above question of jurisdiction has been followed since: *Healy v. Sea Gull Spec. Co.*, 237 U. S., 479, 480; *Geneva Furn. Co. v. Karpen*, 238 U. S., 254, 257.

The rule may therefore be regarded as firmly established that where a patentee *claims a right under the patent law*, to withhold *a part of its patent monopoly right to sell*, by licensing or selling *on conditions imposed by direct agreement with its immediate vendee* to the effect that resale by such *vendee* shall be at restricted prices or within a limited territory, and the vendee *denies such claim of right*, then the case *does involve a claim of right under the patent law*, and *not merely* a suit to enforce *a contract*. In such a case, the fact that an agreement or contract existed does not prevent the cause from being one "arising under the patent laws," the contract being a mere incident, *i. e.*, it *evidences the extent to which the monopoly right to sell was granted, and the extent to which it was reserved.*

The jurisdiction invoked by such a suit is, therefore, clearly that of the Federal courts "arising under the patent laws."

For the foregoing reasons, and under the authorities above cited, we respectfully submit that "Question 1" should be answered in the affirmative.

II (QUESTIONS 2 AND 3).

2. "If so, do the recited facts disclose that some right or privilege granted by the patent laws has been violated?"

3. "Can a patentee, in connection with the act of delivering his patented article to another for a gross consideration then received, lawfully reserve by contract a part of his monopoly right to sell?"

We respectfully contend that each of the foregoing questions (2 and 3) should be answered in the affirmative.

We agree with counsel for the appellant that Questions 2 and 3 should be considered together. While not entirely identical in subject matter or scope, they both involve the nature of the patent monopoly right to "vend," and the kind of disposal of that right by the patentee which will operate to pass the article out from under the monopoly so as to render the patented article a free article of commerce, *i. e., free from all further restraint of the patent monopoly.*

But we differ radically from counsel for appellant in the extent or nature of the monopoly right to sell, and the kind of disposal of that right which will operate to free the article.

The nature of counsel's differences in contention upon those points will be noted as we proceed to present our contentions upon them, and as we endeavor to indicate the answers which we respectfully submit should be made to Questions 2 and 3.

We, therefore, invite attention to:

(1) *The general nature and extent of a patentee's right to "vend" the patented article, and, in general, the methods by which such right may be exercised.*

(2) *What kind or method of exercise of the right will operate to exhaust it by freeing the patented article?*

(3) *An application of the pertinent legal conclusions to the agreement and other facts certified in the case at bar, as indicating the appropriate answers to questions 2 and 3.*

1. *The General Nature and Extent of a Patentee's Monopoly Right to Sell the Patented Article.*

"The words used in the statute are few, simple and familiar" (*Motion Picture Co. v. Universal Film Co.*, 243 U. S., 502, at p. 510), viz., p. 509:

> "Every patent shall contain * * * a grant to the patentee * * * of the *exclusive right* to *make, use*

> and *vend* the invention," etc. (R. S. U. S., sec. 4884, Comp. St., 1913, sec. 9428).

The right to make, use and vend a patented article is not derived from the statute, but existed prior to its enactment. As stated by Mr. Chief Justice TANEY in *Bloomer v. McQuewan*, 14 How., 539, at p. 549 :

> "The franchise which the patent grants, consists altogether in *the right to exclude everyone* from making, using, or vending the thing patented, *without the permission of the patentee.*"

And by Judge ROSE in the "Bathtub" case, *U. S. v. Sanitary Mfg. Co.*, 191 Fed. Rep., 172, at page 190 :

> "*The right to exclude others is the property of the patentee. It is his very own. He may do with it as he will.* * * * A patentee who monopolizes his invention breaks no law."

Also, as stated by Mr. Justice CLARKE in Motion Picture case (*supra*, at p. 510) :

> "It has long been settled that * * * the only effect of his patent is to *restrain others* from manufacturing, using or selling that which he has invented. The patent law simply protects him in the monopoly of that which he has invented," etc.

It being firmly established that the monopoly right is in its nature the right to *exclude others*, it should be noted that the patent statute imposes no qualification upon the ordinary broad meaning to be attributed to the word "vend." All kinds of selling known to the law (and not expressly prohibited by some law effective notwithstanding the statutory grant), are therefore within the monopoly right to "vend."

No expressly permitted methods of exercising the right are indicated by the statute, therefore, *all possible methods* of

vending known to the law, *both conditional, limited or restricted*, and unconditional or unrestricted, are open to the patentee and within the scope of his monopoly.

It is also too clearly established to justify debate:

(a) That the three patent monopoly rights, "to make", "to use", and "to vend", are separate and separable; thus the patentee may himself exercise, or he may grant to another, any one of said rights, without exercising or granting either of the others; and

(b) That the rights are also divisible, *i. e.*, in respect of each such right, the patentee may lawfully exercise or grant to another *something less than the full and unrestricted right* out of which the grant was made, and reserve to himself the *ungranted* part. Thus, in *Virtue v. Creamery Co.*, 227 U. S., 8, at 32, the court said:

> "The owner of a patent has exclusive rights, rights of making, using and selling. He may keep them or transfer them to another—*keep some of them and transfer others.* This is elementary; and, keeping it in mind, there is no trouble in estimating the character of such rights or their transfer."

And in *National Phonograph Co. v. Schlegel*, 128 Fed. Rep. (C. C. A., 8th Cir.), 733, at page 735, Mr. Justice (then Judge) VANDEVANTER said:

> "It rests with the owner to say what part of this property he will reserve to himself, and what part he will transfer to others, and upon what terms he will make the transfer."

To the same effect is the language of Mr. Justice DAY in delivering the opinion of this Court in *Bauer v. O'Donnell* (the "Sanatogen" case), 229 U. S., 1, at page 15 (quoted in *Henry v. Dick*, 224 U. S., 1, at p. 46):

> "To the inventor, by sec. 4884, Revised Statutes, there is granted 'the exclusive right to make, use and

> vend the invention or discovery.' This grant, as defined in *Bloomer v. McQuewan*, 14 How., 539, 549, 'consists altogether in the right to exclude everyone from making, using or vending the thing patented.' Thus, there are several substantive rights, and *each is the subject of subdivision*, so that one person may be permitted *to make*, but *neither to sell* nor *use* the patented thing. To another may be conveyed the right *to sell*, but *within a limited area*, or *for a particular use*, while to another the patentee may grant only the right to make and use, or to use only for specific purposes."

In case the patentee exercises his legal right to grant to another something less than the full and unrestricted right out of which the grant is made, the "ungranted portion" of the monopoly right remains in, (is *reserved by*) the patentee, and the grant as made is a limited or restricted one, so that any *intrusion* by the grantee *upon the ungranted portion* of the monopoly right, *i. e.*, any failure to keep within the limits or restrictions of the grant, *necessarily constitutes a trespass* (infringement) upon *the ungranted or reserved portion of the monopoly.*

Counsel for appellant concede (Appellant's brief, p. 18) "that a patentee may relinquish all or a part of his monopoly right to vend;" but they contend (p. 18) that there are only two methods by which he may do so:

> "FIRST, by granting to another the exclusive right to sell * * * or
>
> "SECOND, by licensing another to sell, and in so doing reserving to himself also a right to sell."

We respectfully submit that if we are correct in understanding counsel to mean that the only method in which the patentee may validly grant a part and reserve the rest, of his monopoly right to sell, is through a restricted "*license*," as distinguished from a *conditional sale* of *the physical article* subject to an express *reservation of a part of the monopoly*

right to sell, then their above contention errs *in excluding conditional, limited or restricted sales in which the intent is clearly expressed* that *only a qualified or restricted right to sell is granted.*

We contend further, that the particular form which an instrument of grant may take is not necessarily conclusive. A careful use of the word "license" does not necessarily force the conclusion that the grant is in its legal effect a "license" (*Straus v. Victor Talking Machine Co.*, 243 U. S., 490); nor does the use of the word "sell," either in the grant or in the briefs of counsel, necessarily mean an unrestricted grant of the right to sell or an unrestricted sale.

In each case the real test should be that which this Court applied in the Victor case, viz., *What is the essential nature* of the transaction, taking into consideration, *but not being controlled by*, the *form* in which the parties clothed it?

That is the test which we shall endeavor to apply in our discussion *(post)* of the transaction disclosed by the facts certified by the Court of Appeals.

Having indicated above, our contention that the monopoly right to "vend" is thus *unqualified* in its nature and extent and in the method in which it may be exercised, we refrain from citing additional authorities here. Cases to be cited later also support the above contentions.

2. *What Method of Exercising the Patent Monopoly Right to "Vend" Will Operate to Exhaust the Right and Free the Patented Article?*

Certain established rules or distinctions should be noted, preliminary to a discussion of the above question:

(a) We understand the rule to be firmly established that any transaction by which the patentee evidences his intent to completely part with *his monopoly right to sell* the patented article, without qualification, reservation, or restriction upon his grant, exhausts the right to sell, and frees the patented article thus sold (*Motion Picture Patents Co. v. Universal*

Film Co., 243 U. S., 502, at 516; *Henry v. Dick*, 224 U. S., 1, at 19; *Mitchell v. Hawley*, 16 Wall., 544, at 547).

(*b*) As a corollary to the above rule, this Court has also repeatedly held, that when a patentee *unconditionally sells the patented article*, to a purchaser who buys "for the purpose of using it in the ordinary pursuits of life" (*Bloomer v. McQuewan*, 14 How., 539 at 549), or as Mr. Justice MILLER expressed it in *Adams v. Burke* (17 Wall., 453, at 456), when a patentee "sells a machine or instrument whose sole value is in its use," the purchaser, by necessary *implication* that *such was the intent*, receives the article *freed from the patent monopoly.*

But, as shown by cases which will be cited later, in order to come within the above rules *(a)* and *(b)*, the sale must (in its essence) be *an unconditional* one.

(c) In the growth of the latter rule, and in explanation of the reason on which it is founded, the distinction was made by this Court between a grant of the right *to make* and *vend* a patented article, and a grant of the right *to use* the patented article; *i. e.*, the purchaser of the right to make or vend the patented article for use in a particular place, "buys *a portion* of *the franchise* which the patent confers," but *a portion only*, whereas the *unconditional* purchaseof a patented article whose sole value is "in its use," buys not only the corporeal property (the title to the physical thing), but also the unconditioned (incorporeal and monopoly) right *to use and sell it.* Stated in more exact terms, he also receives the title to that particular physical thing, *released* from all further restraint under the patent monopoly. And he receives such release, because in the case of the unconditional sale of such a patented article, the *absence of expressed conditions or restrictions* upon the future *right to use or sell it, lets in the presumption or implication* that *the patentee intended* by making an *unconditional sale* of the article itself, to pass not only the title to the physical property, but also the monopoly right to use and sell, and that

thereby the patented article *became free from the monopoly of the patent.*

It should be noted that all the cases decided by this Court, which support the rule referred to by counsel for appellant (brief, p. 20),—that when a patentee sells a machine or instrument whose sole value is in its use, he receives the consideration for its use, and parts with the right to restrict that use, so that the article passes out of the monopoly,—are cases in which the sale was *an unconditional or unrestricted sale;* and it is essential to bear that fact in mind in any application sought to be made of that rule.

We respectfully submit that an examination into the history of that rule, as evidenced by the opinions of this Court, sustains the foregoing contention.

The rule apparently had its origin in *Bloomer v. McQuewan*, 14 How., 539 at 549.

The suit was in the Federal Court, by bill alleging patent infringement of an *extended* patent, to enjoin defendants from using two of the patented planing-machines, which during the original term of the patent, defendants (appellees) had purchased from the original patentee the right to construct and use within a part of the same territory.

The question decided was whether the right of defendants to use the said machines *had terminated* with the original grant, or *still continued* under the extended term. In discussing the nature of the rights granted by the patent, this Court referred to the fact that it had been previously decided in *Wilson v. Rousseau*, 4 How., 646, that a party who had purchased the planing-machine during the original term of the patent had a right to continue the use during the extension, and in that connection the Court said (p. 549):

> "And the distinction is there taken between the grant of the right to make and vend the machine, and the grant of the right to use it.
>
> "The distinction is a plain one. The franchise

which the patent grants consists altogether in the right to exclude everyone from making, using, or vending the thing patented, without the permission of the patentee. This is all that he obtains by the patent. And *when he sells* the exclusive *privilege* of *making* or *vending* it *for use in a particular place*, the purchaser *buys a portion of the franchise* which the patent confers. He obtains *a share in the monopoly*, and that monopoly is derived from, and exercised under, the protection of the United States. And the interest he acquires, necessarily terminates at the time limited for its continuance by the law which created it. * * *

"But the purchaser *of the implement* or machine *for the purpose of using it in the ordinary pursuits of life*, stands on different ground. *In using it*, he *exercises no rights created by the act of Congress*, nor does he derive title to it by virtue of the franchise or exclusive privilege granted to the patentee. The inventor might lawfully sell it to him, whether he had a patent or not, if no other patentee stood in his way, and when the machine *passes to the hands of the purchaser*, it is *no longer within the limits of the monopoly*. It passes outside of it, and is no longer under the protection of the act of Congress."

It should be noted that the language above quoted, while *obiter dictum* in respect of the point decided in the case, gives no indication that this Court had in mind a restricted or conditional purchase of the patented article, and, therefore, it should be assumed that the purchase referred to was an *unconditional* one, and the later decisions indicate that it has been so interpreted by this Court.

The rule was next referred to, in *Chaffee v. Boston Belting Co.*, 22 How., 217, also a controversy between parties claiming that they were permitted by the patentee to manufacture and use the patented article during the original term of the patent, and parties holding an assignment of the patent during an extended term thereof.

The Court again refers (p. 223) to the rule as having been "repeatedly held by this Court," *i. e.:*

> "that a party who had purchased a patented machine, and was using it during the original term for which the patent was granted might continue to use the machine during the extended term. *Bloomer v. McQuewan et al.*, 14 How., 549; *Wilson v. Rousseau*, 4 How., 646. That rule rests upon the doctrine that the purchaser, in using the machine under such circumstances, exercises no rights created by the act of Congress, nor does he derive title to it by virtue of the franchise or the exclusive privilege granted to the patentee.
>
> "When the patented machine rightfully passes to the hands of the purchaser from the patentee, or from any other person by him authorized to convey it, the machine is no longer within the limits of the monopoly."

Here again there is no indication, that any other than an unconditional purchase was referred to.

The rule was next referred to, in *Bloomer v. Millinger*, 1 Wall., 340, at 351, another controversy between a claimant of the right to manufacture and use under the original patent, and an adverse claimant under the patent as extended; the Court said (p. 351):

> "Founded as that rule is upon the distinction between the grant of the right to make and vend the machine, and the grant of the right to use it, the justice of the case will always be obvious, if that distinction is kept in view, &c. * * *
>
> "Purchasers of the exclusive privilege of making or vending the patented machine in a specified place, hold a portion of the franchise which the patent confers, and of course the interest which they acquire terminates at the time limited for its continuance by the law which created it, *unless it is expressly stipulated to the contrary.* But the purchaser of the implement or machine, for the purpose of using it in the ordinary pursuits of life, stands on different ground."

(Citing *Bloomer v. McQuewan*, 14 How., 549 ; *Chaffee v. Boston Belting Co.*, 22 How., 223).

Here again there is no indication that a *conditional* or restricted grant was referred to.

The rule is next mentioned in *Mitchell v. Hawley*, 16 Wall., 544, another controversy between a claimant under a license to make and use granted during the original term of the patent, and a conflicting claimant during an extended term.

The Court again emphasizes, (p. 547), "the well-founded distinction between the grant and the right to make and vend the patented machine, and the grant of the right to use it," saying (p. 548) :

> " Purchasers of the exclusive privilege of making or vending the patented machine hold the whole or a portion of the franchise which the patent secures, *depending upon the nature of the conveyance*, and of course the interest which the purchaser acquires terminates at the time limited for its continuance by the law which created the franchise, unless it is expressly stipulated to the contrary. But the purchaser of the implement or machine for the purpose of using it in the ordinary pursuits of life stands on different ground, as he does not acquire any rights to construct another machine either for his own use *or to be vended to another for any purpose*. Complete title to the implement or machine purchased becomes vested in the vendee by the sale and purchase, but he acquires no portion of the franchise, as the machine, when it rightfully passes from the patentee to the purchaser, ceases to be within the limits of the monopoly.
>
> " Patented implements or machines sold to be used in the ordinary pursuits of life become the private individual property of the purchasers, and are no longer specifically protected by the patent laws of the State where the implements or machines are owned and used. *Sales of the kind may be made by the patentee with* or

> *without conditions, as in other cases, but where the sale is absolute, and without any conditions,* the rule is well settled that the purchaser may continue to use the implement or machine purchased until it is worn out, or he may repair it or improve upon it as he pleases, in the same manner as if dealing with property of any other kind."

Above quotation is the first instance which we have found, in which this Court, in a discussion of the rule referred to, indicated the distinction which we are now seeking to make, namely, that the decisions supporting the rule (that a sale by the patentee of a patented article to a purchaser who buys for use in the ordinary pursuits of life frees the article from the monopoly), *all refer to purchases which were unrestricted and unconditional.*

This appears plainly from that portion of the above quotation which we have printed in italics. In saying that "sales of the kind may be made by the patentee with or without conditions as in other cases," we think it clear that the Court meant to distinguish between *unconditional* sales by the patentee, in which cases the article *passes out from under the monopoly*, and *conditional or restricted sales*, which the court says "may be made by the patentee *as in other cases, i. e.*, as in *other cases of limited or restricted transfers of a part of the patentee's monopoly right.*

Our contention in respect of the interpretation to be placed upon the earlier decisions of this Court is, we respectfully submit, strengthened by the fact that the opinion in *Mitchell v. Hawley* was written by Mr. Justice CLIFFORD, who also wrote the opinions in all of the earlier cases above cited, except that in *Bloomer v. McQuewan*, in which the opinion was written by Mr. Chief Justice TANEY.

The rule was next referred to in *Adams v. Burke*, 17 Wall., 453, at 455 and 456. A patentee had assigned his right to manufacture, sell and use within a limited district an

improvement in coffin-lids. An undertaker purchased within the limited territory certain coffins with lids embodying the patented device, transported them outside of the limited territory, and there used, *i. e.*, *sold*, them in his business. He was sued as an infringer. The question thus presented, whether a patented article unconditionally bought within the prescribed limits could be used by the purchaser anywhere without reference to other assignments of territorial rights by the same patentee, being a novel one, Mr. Justice MILLER, after stating that "the novelty and importance of the proposition admonish the Court to proceed with care and *to decide in each case no more than what is directly in issue*," said (p. 455):

> "We have repeatedly held that where a person had purchased a patented machine of the patentee or his assignee, this purchase carried with it the right to the use of that machine so long as it was capable of use, and that the expiration and renewal of the patent, whether in favor of the original patentee or of his assignee, did not affect this right. The true ground on which these decisions rest is that the sale by a person who has the full right to make, sell, and use such a machine carries with it the right to the use of that machine to the full extent to which it can be used in point of time.
>
> "The right to manufacture, the right to sell, and the right to use are each substantive rights, and may be granted or conferred separately by the patentee.
>
> "But, in the essential nature of things, when the patentee, or the person having his rights, sells a machine or instrument whose *sole value is in its use*, he receives the consideration for its use and he parts with the right to restrict that use. The article, in the language of the Court, passes without the limit of the monopoly" (citing Bloomer v. McQuewan, 14 How., 549; Mitchell v. Hawley, 16 Wall., 544). "That is to say, the patentee or his assignee having in the act of sale received all the royalty or consideration which he claims for the use of his invention in that particular machine or instrument, it is open to the use of the pur-

chaser without further restriction on account of the monopoly of the patentees.

"If this principle be sound as to a machine or instrument whose use may be continued for a number of years, and may extend beyond the existence of the patent, as limited at the time of the sale, and into the period of a renewal or extension, it must be much more applicable to an instrument or product of patented manufacture which *perishes in the first use of it*, or which, by that first use, becomes incapable of further use, and of no further value. Such is the case with the coffin-lids of appellant's patent.

"It seems to us that, although the right of Lockhart and Seelye to manufacture, to sell, and to use these coffin-lids was limited to the circle of ten miles around Boston, that a purchaser from them of a single coffin acquired the right to use that coffin *for the purpose for which all coffins are used*. That so far as *the use* of it was concerned, the patentee had received his consideration, and it was no longer within the monopoly of the patent. It would be *to engraft a limitation upon the right of use* not contemplated by the statute nor *within the reason of the contract* to say that it could only be used within the ten-mile circle. Whatever, therefore, may be the rule when patentees subdivide territorially their patents, as to the exclusive right to *make* or *to sell* within a limited territory, we hold that *in the class of machines or implements we have described*, when they are once lawfully made *and sold*, there is no restriction on their *use to be implied* for the benefit of the patentee or his assignees or licensees."

Several points should be noted in connection with the above quotation from *Adams v. Burke :*

(A) The rule referred to by Mr. Justice MILLER upon the authority of *Mitchell v. Hawley*, 16 Wall., 544, was presumably the rule shown by the quotation from *Mitchell v. Hawley (supra)*, in relation to *unconditional* sales by the patentee of his patented article, and *had no relation* to *conditional* sales.

This, we submit, appears from the italicized portion of the following:

> "It would be to engraft a limitation upon the right of use not contemplated by the statute *nor within the reason of the contract* to say that it could only be used within the ten-mile circle,"

and further:

> "there is no restriction on their use *to be implied* for the benefit of the patentee," etc.

Certainly the quoted language gives no indication, that this Court ever intended to approve a rule that the sale by a patentee of his patented article (even though it passes to the purchaser the title to the physical article), necessarily and without respect to conditions upon which the title passed, merely because of such transfer of title, operates *to free the article from the patent monopoly*, if an intent not to do so *be expressed.*

On the contrary, we respectfully submit that an interpretation, consistent with the rule as it had developed up to that time, should be limited to cases in which the patentee makes an unconditional sale of the patented article, to a purchaser for use in the ordinary pursuits of life; *i. e.*, without any express condition or restriction upon the future exercise by the vendee of the monopoly right to use, or to sell the article; and that the rule has no application when the grant is made with express reservation by the patentee of a portion of his monopoly rights, either to make, to use or to sell.

(B) It is interesting further, especially in the light of the decision in the Sanatogen case, to note the following language:

> "If this principle be sound as to a machine or instrument whose use may be continued for a number of years, *it must be much more applicable to an instrument or product of a patented manufacture which perishes in*

> *the first use of it, or which, by that first use, becomes incapable of further use, and of no further value.* Such is the case with the coffin-lids of appellant's patent."

The *use* which the defendant made in *Adams vs. Burke*, was by *selling*. He did not use them except through sales made by him, and as Mr. Justice MILLER remarked, each such use rendered the article incapable of further use, *i. e.*, each sale by Burke precluded a further sale and a further use. So that the implication was strong that by *unconditionally* selling such an article, the patentee *intended* to free it from further monopoly restraint *upon resale*.

The next decision, in which the early cases were cited, was the *Paper Bag Cases*, 105 U. S., 766. We find nothing in that decision inconsistent with our above contention, that the rule does not apply to conditional or restricted sales.

The same comment applies to the decision in *Morgan Envelope Co. v. Albany Paper Co.*, 152 U. S., 425, at 432, in which the Court thus refers to the power of a patentee to sell the machine and transfer the right to use the same (p. 432): "the *accompanying* right of use is an incident of *unrestricted* ownership."

The rule was again applied in *Keeler v. Standard Folding Bed Co.*, 157 U. S., 659, 661, 664 and 668. The Standard Folding Bed Company sued to enjoin Keeler. Complainant was assignee for the State of Massachusetts of letters patent, and contended that the defendant was infringing by selling in his territory. His defense was that he had purchased the patented articles in Michigan from a grantee owning the patent rights for the State of Michigan, and while defendant was engaged in selling the patented articles in Massachusetts, he claimed the right to do so under his Michigan purchase. The Court held that his defense was good. In discussing the question the Court said, page 661:

> "Where the patentee has not parted, by assignment, with any of his original rights, but chooses himself to

> make and *vend* a patented *article* of manufacture, it is obvious that a purchaser can use the article in any part of the United States, and, *unless restrained by contract with the patentee*, can *sell* or dispose of the same. It has passed outside of the monopoly, and is no longer under the peculiar protection granted to patented rights."

In its further discussion of the question involved, the Court cites *Bloomer v. McQuewan*, 14 How., 539 ; also *Mitchell v. Hawley*, 16 Wall., 544, and quotes from the latter opinion the language of Mr. Justice CLIFFORD, which we have quoted above, showing that the sale referred to in the rule was a sale " *without any conditions ;* " also *Adams v. Burke*, 17 Wall., 453, concerning which the Court said (p. 664) :

> " It is obvious that necessarily *the use* made by Burke of these coffins *involved a sale* in every case. He did not put them to his personal use, unless we are permitted to suppose that he was himself buried in each one of the coffins. He bought the coffins for the purpose of selling them to others, and the legal significance of the decision upholding his defense is that a person who buys patented articles from a person who has a right *to sell*, though within a restricted territory, has a right to *use and sell* such articles in all and any part of the United States ; that when the royalty has once been paid to a party entitled to receive it, the patented article then becomes the absolute, unrestricted property of the purchaser, with the right to sell it *as an essential incident of such ownership.*"

In no part of the opinion in *Keeler v. Standard Folding Bed Co.*, do we find any intimation that the rule under discussion was to be extended in scope beyond that clearly indicated by prior decisions of this Court, namely, that it applied only to cases of unconditional sales and did not apply to cases of conditional or restricted sales. Moreover, the above quoted comment that the *use* made by Burke of the coffins, *involved*

a sale in every case, indicates, we respectfully submit, that, in applying the rule, no distinction was made, or is to be made, between a purchase *for use* and a purchase *for resale, i. e.*, since a patentee may validly qualify or restrict his grant of a patent right for the purpose *of use* by the purchaser, he may likewise qualify or restrict his grant for the purpose *of resale* by the purchaser. And, on the other hand, if in making his sale of the patented article, the patentee omits to reserve any part of his monoply right in respect of the article sold (whose value is in its use or resale), then the article passes out from under the monopoly, not only with respect to the purchaser's right to use it, but in like manner, with respect to the purchaser's right to resell it, each of said rights being " an incident " of absolute and not qualified ownership, and, therefore, by necessary implication intended to be a part of an *unconditional* sale.

The rule was again referred to in *Henry v. Dick*, 224 U. S., p. 1. While that decision has since been overruled by this Court, we understand that the rule here referred to concerning the effect of an unconditional sale by a patentee of the patented article was not in any way modified.

On page 19 the Court said :

> " By a sale of a patented article *subject to no conditions* the purchaser undeniably acquires the right to use the article for all the purposes of the patent so long as it endures. He may use it where, when, and how he pleases, and may dispose of the same unlimited right to another. This has long been the settled doctrine of this and all patent courts. *Mitchell v. Hawley*, 16 Wall., 544 ; *Livingston v. Woodworth*, 14 How., 546, 550; *Adams v. Burke*, 17 Wall., 453, 456; *Folding Bed Case (Keeler v. Standard Folding Bed Co.)*, 157 U. S., 659, 666). By such an *unconditional sale* of the thing patented it is said to be ' no longer within the limits of the monopoly. It passes outside of it, and is no longer under the protection of the Act of Congress.'

> "In the cases cited above, as well as in the leading case of *Bloomer v. McQuewan*, 14 How., 539, the statement that a purchaser of a patented machine has an unlimited right to use it for all the purposes of the invention, so long as the identity of the machine is preserved, *was made of one who bought unconditionally*, that is, *subject to no specified limitation* upon his right of use."

In *Bauer v. O'Donnell*, 229 U. S., 1, (the Sanatogen case), the above early cases were again cited (p. 15), and the Court quotes from the opinion in *Adams v. Burke*, 17 How., 453, substantially what we have quoted above from page 455.

Here, again, no modification was made of the rule as established by the earlier cases.

Nor was the rule thus established overthrown or modified by the recent decision of this Court in *Straus v. Victor Talking Machine Company*, 243 U. S., 490, 501, wherein *Adams v. Burke*, 17 Wall., 453, is cited. The Court held in the Victor case, that the so-called "license" agreement, although *in form* a "license" purporting to reserve monopoly rights, in effect evidenced the *real* intent to make an *absolute sale* of *the patented article*, with a further attempt to engraft thereon *by "mere notice"* attached to the patented article, a restriction upon a purchaser in the open market, who *did not assent* to any such restriction upon his absolute title or upon the implied right to use and resell, which by necessary inference he acquired through an *unconditional* purchase.

We shall discuss later the effect of the decisions of this Court upon the power of a patentee, in exercising his monopoly rights to use or to sell, to reserve from his immediate grantee a part of such rights, by *a direct agreement* with such grantee, as distinguished from an effort to do so *by mere notice* attached to the goods, and against a purchase in the open market.

Our immediate purpose here, is to show that the above

rule, invoked by counsel for appellant (brief, p. 19, *et seq.)*, viz., that " when a patentee sells a patented article which has value only for the use to which it may be put, he receives full consideration for its use and parts with the title to restrict its use ", should, in the light of the history and development of the rule, as shown by the cases above cited, be limited in its interpretation to sales of the patented article which are *unconditional and unrestricted*, and should not be applied to *conditional or restricted* grants in which the intent of the parties is expressed that the patentee reserves part of his monopoly to use or sell, and in which the purchaser assents to such reservation.

And we respectfully submit that the cases reviewed above abundantly support our said contention.

(d) There is a further important distinction to be noted, before we attempt to consider what kind of disposals operate to free a patented article, viz., the established distinction between the *title* to the *physical article* which embodies a patent and the *right to exercise the* patent *monopoly* in respect of such article. The former constitutes *corporeal* property, the latter *incorporeal* (*De La Vergne Machine Co. v. Featherstone*, 147 U. S., 209).

The distinction inheres in the differing nature of the property rights. It was referred to (in effect) in the opinion of the Court in the Dick case (*Henry v. Dick*, 224 U. S., 1, at 24).

In respect of copyrights, the distinction is expressly recognized by the statute (Copyright Act of March 4, 1909, Sec. 41):

> " That the *copyright* is *distinct from the property in the material object copyrighted*, and the sale or conveyance, by gift or otherwise, of the material object shall not of itself constitute a transfer of the copyright," etc.

The distinction is equally if not more applicable to patented articles, and patent rights.

As we attempted to show *(supra)*, it is an established rule

that the incorporeal patent monopoly rights are not only separable, but each is susceptible of subdivision. In exercising his monopoly rights, a patentee may part with one or more of them entirely or unconditionally, by sale and assignment, or, he may exercise the lesser, though substantive, privilege of making *partial* disposals of one or more of the rights, *reserving* to himself the rest of the particular rights out of which such grant was made. And in thus partially exercising his rights he may evidence *by direct agreement with his grantee, made at the very instant of the transaction*, the extent to which he grants, and the extent to which he reserves, the particular incorporeal right involved in that transaction.

But, since the corporeal property, and the incorporeal property, are distinct subject matters in respect of a patented article, the fact that the patentee in a particular transaction intends to dispose (entirely or partially) of one of his kinds of property in respect of his patented article, does not necessarily force the conclusion that he also intended to dispose in like manner of the other kind of property.

In each case (we respectfully submit) the legal effect of the transaction should be tested and judged (as it was by this Court in the Victor case) by the *real intent* of the contracting parties, of which their written contract is the primary and best evidence.

But in ascertaining that intent, the distinction should be kept in mind, between the extent to which the patentee intended to dispose of his corporeal property, and the extent to which he intended to dispose of his incorporeal (monopoly) rights in relation to the physical article.

The distinction between the corporeal property right in the materials constituting a patented article, and the incorporeal monopoly rights in respect of the invention embodied therein, was thus referred to in the Court's opinion in *Henry v. Dick*, 224 U. S., 1, at page 24 :

> " The argument for the defendants ignores *the distinction* between the *property right* in *the materials*

composing a patented machine, and the *right to use* for the purpose and in the manner pointed out by the patent. The latter may be and often is the greater element of value, and the buyer may desire it only to apply to some or all of the uses included in the invention. But the two things are separable rights. If *sold unreservedly* the right to the entire use of the invention passes, *because that is the implied intent ;* but this right to use is nothing more nor less than an unrestricted license *presumed* from an *unconditional* sale. * * *

"We repeat. *The property right* to a patented machine *may pass to a purchaser with no right of use*, or with only the right to use *in a specified way*, or at a specified place, or for a specified purpose. The unlimited right of exclusive use which is possessed by and guaranteed to the patentee will be granted *if the sale be unconditional.* But if the right of use be confined by specific restriction, the use not permitted is necessarily reserved to the patentee. If that reserved control of use of the machine be violated, the patent is thereby invaded. This right to sever *ownership* and *use* is deducible from the nature of a patent monopoly and is recognized in the cases.

"In *Sawin v. Guild*, 1 Gall., 485, Mr. Justice STORY, as far back as 1813, recognized the distinction by holding that a sale of patented machines under an execution against the patentee did not render the sheriff liable under a statute which made any person liable who should sell a patented device without consent of the patentee, because the sheriff had merely sold *the materials* and had not undertaken to pass any *right of use.* But in Wilder v. Kent, 15 Fed. Rep., 217, it was held that under such an execution sale there passed whatever right of use the debtor had if the sale was unconditional.

"Judge LOWELL, in Porter Needle Co. v. National Needle Co., 17 Fed. Rep., 536, after saying that an absolute and unqualified sale of a patented machine carried with it the right of use, said :

"'But the mere value of a patented machine is often, as is proved to be in this case, insignificant in com-

> parison with the value of its use; and the courts have permitted a severance of ownership and right of use, if the patentee has chosen to dissever them, and if his intent is not doubtful.'"

The same principle was necessarily recognized by this Court in some of the extension cases above cited, in which a patentee had sold his patented article without restriction and subsequently, under the "Extension Act," had obtained an extension of the term of the patent; then, notwithstanding the fact that the purchaser continued to own the complete title to the physical property embodying the invention, yet, during the extended term, he would have had no right to use what he thus owned, *except* for the fact that *the extension act granted it.*

The distinction is also illustrated by the decision of this Court in *Stephens v. Gladding*, 17 How., 447, 452. The suit was to restrain defendant from printing and publishing a copy-righted map. His defense was that he (or his vendor of the maps) had bought the "copper-plate" at a sheriff's sale under execution upon a judgment against the plaintiff. In deciding that the sale of the "copper-plate" did not carry with it a right to use it for the purpose of producing and selling the copy-righted maps, the Court said (p. 452):

> "The sole question is, whether *the mere fact* that the plaintiff *owned the plate*, attached to it the right to print and publish the map, so that this right *passed with the plate*, etc. * * * And upon this question of the annexation of the copyright to the plate it is to be observed, first, that *there is no necessary connection between them. They are distinct subjects of property, each capable of existing, and being owned and transferred, independent of the other.*"

To the same effect see *Stephens v. Cady*, 14 How., 528.

We respectfully submit, that the above distinction between title to the physical article, embodying a patented invention,

and to the monopoly rights created by the patent statute in respect of such invention, is important in considering the questions now under consideration in the case at bar, because it shows that the mere sale of the physical article *does not necessarily carry with it the right to exercise the monopoly rights.*

If such sale be *without expressed conditions*, and "for use in the ordinary pursuits of life," the intent *is implied* that the parties intended the article to pass to the purchaser, freed for use or resale by him.

But if restrictions or conditions affecting the extent of the monopoly rights reserved and of those granted, *are expressd* in the instrument of grant, then all occasion for any such implication is excluded by the expressed intent.

Having endeavored above to show by the decisions of this Court, the above established rules and the exact scope and limits of the distinctions which should be kept in mind, we now turn to the question, what kind of disposal by the patentee, of his patented article, will operate to free the article from the patent monopoly. It involves the essence of the Certified Questions 2 and 3, and, in conforming more nearly to them, may be stated thus:

Can a patentee,—in connection with and as a part of the act of delivering his patented article to his immediate vendee thereof, for a gross money consideration, but subject to reserved restrictions, (upon the right of sale by the taker, i. e., limiting the place and prices of such sales), the future observance of which (restrictions) by such taker will be of substantial value to the patentee,—lawfully impose such restrictions as a partial exercise of his monopoly right to "vend," if they be expressed in the written agreement between the patentee and his said immediate vendee which evidences the transaction between them?

If, he can, as we respectfully contend, then Question 3 should be answered affirmatively.

And if, as we further contend, his right to thus dispose of

a part only of his monopoly right to sell, and his right to require the immediate taker from him *not to transgress the limits of the restricted grant, may be treated by him as arising out of the patent statute*, and is not required to be treated as based *solely upon the contract*, then Question 2, also, should be answered affirmatively.

It should be noted and kept in mind, that in the case at bar, complainants *are not relying upon a "mere notice" attached to the patented articles.*

They are relying upon a direct and *express restrictive agreement between the patentee, and his immediate licensee or vendee, made between them at the very instant of and as part of the transaction.*

Nor do complainants seek to enforce the reserved restriction against *unconditional purchasers in the open market.*

They are seeking to enforce the restrictions only against *dealers* who receive the goods directly *from the patentee*, as aforesaid, and who take them *subject to the express assent and covenant of the dealers to be bound by the restrictions thus reserved.*

We respectfully submit: that the fundamental point involved in Questions 2 and 3, (viz., whether, in exercising his right to sell, the patentee may validly impose restrictions upon the right of the grantee to resell articles embodying the invention, but as to which the patentee has either parted with, or never owned, the physical, corporeal, property), was decided by this Court in *Bement v. Harrow Co.*, 186 U. S., 70; that the rule there established has not been shaken or modified by any of the later decisions of this Court, but has frequently been cited with approval; that, on the contrary, all the indications afforded by the intense light of the extensive discussions by this Court of "price restrictions," point to the conclusion, that while a patentee may not, by *mere notice* affixed to the patented article, restrict future sales by purchasers in the open market, he may validly do so *by direct agreement* with his immediate

and conditional vendee, and may enforce such restriction and limitation against such vendee, either as for an *infringement*, or as upon a contract, at his election.

A consideration of this contention involves a review of the cases.

Bement v. National Harrow Co., 186 U. S., 70, was a suit by the Harrow Company, in a State Court, to recover liquidated damages arising out of an alleged violation by Bement and others of certain restrictive contracts relating to the *manufacture* and *sale* of patented "Float Spring Tooth Harrows," etc., under letters patent owned by plaintiff; also *to restrain the future violation* of such contracts, and to *compel their specific performance by defendant.* The case was tried before a referee who gave judgment for plaintiff with the desired injunction and decree for specific performance. This judgment was affirmed by the highest State Court, and then the case came to this Court by writ of error.

The opinion of this Court shows that plaintiff was the owner of letters patent covering the devices in question; that defendant desired to acquire the right to manufacture and sell such devices, and to that end *entered into a written contract* by which *plaintiff* granted *defendant* the license and privilege of *manufacturing, marketing* and *vending* such devices, the license being granted subject to certain conditions which included agreements that defendant would not "*allow any rebate or reduction from the price or prices fixed in the license*, except," etc.; that defendant *would not sell* "*at a less price* or on more favorable terms of payment and delivery to the purchasers", than set forth in schedule B, which was made a part of the license; and that "any departure from the terms of the license might at the option of the plaintiff be treated as a breach thereof and the licensee *be treated as an infringer*, or plaintiff might restrain the breach in a suit brought for the purpose," etc.

Schedule B contained a statement of the prices and terms

of sale under the license, and provided for discounts to be allowed.

It was contended for defendant that plaintiff and other parties had *entered into a combination* of all manufacturers and dealers in patent harrows to regulate their manufacture and prices; that such contracts had been declared void by the Supreme Court of New York; that the contracts under consideration were a mere continuance of the former contracts and were likewise void; and that all of the contracts *violated the Sherman Act* and were, therefore, invalid.

In considering the validity of the contracts, the Court said, page 88:

> "The first important and most material fact in considering this question is that the agreements concern articles *protected by letters patent* of the Government of the United States. The plaintiff, according to the finding of the referee, was at the time when these licenses were executed the absolute owner of the letters patent relating to the float spring tooth harrow business. It was, therefore, *the owner of a monopoly* recognized by the Constitution and by the statutes of Congress. An owner of a patent has the right to sell it or to keep it; to manufacture the article himself or to license others to manufacture it; to sell such article himself or to authorize others to sell it."

In explaining further the nature of the monopoly rights of a patentee, the opinion (p. 90) quotes from *Heaton-Peninsular Button Fastener Co. v. Eureka Specialty Co.*, 77 Fed. Rep. (C. C. A.), 288, 294, 295, to the effect *that a patentee may if he see fit*

> "*reserve to himself the exclusive use of his invention or discovery.* If he will neither use his device nor permit others to use it, he has but suppressed his own. * * * His title is exclusive, and so clearly within the constitutional provisions in respect of private property that

he is neither bound to use his discovery himself nor permit others to use it."

The opinion of this Court then calls attention to the fact that under certain circumstances the sale of articles manufactured under patents may be prevented *through the exercise of police power* or the *regulation of internal commerce*, and then says (p. 91) :

> " Notwithstanding these exceptions, *the general rule is absolute freedom in the use or sale of rights under the patent laws of the United States.* The very object of these laws is *monopoly*, and the rule is, with few exceptions, that any conditions which are not in their very nature illegal with regard to this kind of property, *imposed by the patentee and agreed to by the licensee* for the right to manufacture or use or sell the article, will be upheld by the courts. *The fact that the conditions in the contracts* keep up the monopoly *or fix prices does not render them illegal.*"

Upon the question whether the contracts were valid in respect of their effect upon commerce, this Court said (p. 92) :

> " The contention that they do not affect interstate commerce is not correct. We think *the licenses do* by their terms and by their plain meaning refer to, *include* and provide for *interstate* as well as other *commerce.* * * * The contracts plainly look to the sale, and *they also determine the price of the article sold*, throughout the United States, as well as to the manufacture in the state of Michigan. *As these contracts do, therefore, include interstate commerce* within their provisions, *we are brought back* to *the question whether the agreement* between these parties with relation to these patented articles *is valid* within the act of Congress. It is true that it has been held by this court that the act included any restraint of commerce, whether reasonable or unreasonable. *United States v. Trans-Missouri Freight Association*, 166

U. S., 290; *United States v. Joint Traffic Association*, 171 U. S., 505; *Addyston Pipe & Steel Company v. United States*, 175 U. S., 211. But that statute clearly does not refer to that kind of a restraint of interstate commerce *which may arise from reasonable and legal conditions imposed upon the assignee or licensee of a patent by the owner thereof, restricting the terms upon which the article may be used and the price to be demanded therefor.* Such a construction of the act we have no doubt was never contemplated by its framers."

and (p. 93):

"In these contracts provision is expressly made, not alone for *manufacture*, but *for the sale of the manufactured product* throughout the United States, and *at prices which are particularly stated*, and which the *seller is not at liberty to decrease without the assent of the licensor. Addyston Pipe & Steel Co. v. United States*, 175 U. S., 211, 238. These contracts directly affected, not as a mere incident of manufacture, *the sale* of the implements all over the country, and *the question arising is whether the contracts which thus affect such sales are void under the act of Congress.*

"On looking through these licenses *we have been unable to find any conditions contained therein rendering the agreement void because of a violation of that act.* * * * *The provision in regard to the price at which the licensee would sell the article manufactured under the license was also an appropriate and reasonable condition. It tended to keep up the price of the implements manufactured and sold*, but *that was only recognizing the nature of the property dealt in, and providing for its value so far as possible. This the parties were legally entitled to do.* The owner of a patented article can, of course, charge such price as he may choose, and the owner of a patent may *assign it or sell the right to manufacture and sell the article patented upon the condition that the assignee shall charge a certain amount for such article.*"

It will be observed that in the above case there was no license of the right *to use.*

The two monopoly rights which were *restrictively granted,* were the right *to manufacture,* and the right *to sell.* The patentee did not sell to the licensee the physical articles, with a license to sell. The patentee *at no time held title to the physical articles.* They were manufactured by the licensee, and *owned* by the latter from the moment they came into existence. The right to validly impose restrictions on sales by the licensee, therefore, *did not rest at all upon any reserved title to the physical article remaining in the patentee.* It did rest upon the fact that the subject matter of the contract was a part of the monopoly right to sell.

The Bement case, therefore, holds that there may be a valid restriction under the patent monopoly upon the licensee's right to resell, *entirely disassociated from the common law property right in the patented article.*

Moreover, since the agreement was between the patentee and his immediate vendee, it also follows that a patentee (who has not parted with his monopoly rights to do so), may, *by direct agreement* with his immediate licensee or distributee, validly impose restrictions upon the latter's right *to resell,* even though the patentee *never owned,* or *has entirely parted with, the title to the patented article.*

The Bement case did not involve the feature of a *mere notice* attached to the patented article.

And while the validity of the restrictive price agreements was attacked on the ground that they violated the Sherman Act, and not in a suit for infringement, the fact remains that the decision involved the right of a patentee *under the patent laws* to impose such a restriction. The Bement case is, therefore, also in point in support of our contentions upon Question 2, viz., that a reservation of a part of the monopoly right to sell is not only valid, but that it *rests upon the patent*

laws and that the Sherman Act does not lessen these patent rights.

In *Bobbs-Merrill Co. v. Straus*, 210 U. S., 339, the suit below was in the Federal Court, to restrain the sale *at retail* of copies of a copyrighted book, which contained "*notice*" of the copyright, and that "no dealer is licensed to sell at less" than one dollar per copy at retail. The defendant (a department store) had bought its supply of the books with knowledge of the copyright notice, from jobbers who (p. 342)

> "were *under no agreement* or obligation to enforce the observance of the terms of the notice *by retail dealers* or to *restrict their sales to retail dealers* who would agree to observe the terms stated in the notice."

Nor was defendant *under any agreement with plaintiff* to observe the terms as to sale prices. So that the case presented the sole question whether the owner of a copyright can, *by mere notice* affixed to the books, and *in the absence of a restrictive agreement directly with the defendant* who had bought the books in the open market without consenting to any restrictions, control the resale prices.

In discussing the question thus presented, this Court said (p. 343):

> "The present case involves rights under the copyright act. * * *
>
> "A case such as the present one, concerning inventions protected by letters patent of the United States, has not been decided in this court, so far as we are able to discover."

In respect of an attempt by a patentee, *by mere notice* attached to his patented article, to restrict prices on resale, there seems also to have been no earlier or other decisions by this Court. As applied to a direct contract of license between the patentee and the first taker from him, however, the right

of the patentee by such contract to restrict prices upon resale had previously been decided in the Bement case, as we have attempted to show above.

That the decision of this Court in the Bobbs-Merrill case was limited to the sole question of the effect of an effort to enforce price restrictions *by mere notice* attached to the copyrighted article, we think plainly appears from the following language of the opinion (p. 349) :

> " What does the statute mean in granting ' the sole right of vending the same ' ? Was it intended to create a right which would permit the holder of the copyright to fasten, *by notice* in a book or *upon one of the articles mentioned within the statute*, a restriction upon the subsequent alienation of the subject-matter of copyright after the owner had parted with the title to one who had acquired full dominion over it and had given a satisfactory price for it ? It is not denied that one who has sold a copyrighted article, *without restriction*, has parted with all right to control the sale of it. The purchaser of a book, once sold by authority of the owner of the copyright, may sell it again, although he could not publish a new edition of it.
>
> " In this case the stipulated facts show that the books sold by the appellant were sold at wholesale, and purchased by those who *made no agreement* as to *the control of future sales* of the book, and took upon themselves no obligation to enforce the notice printed in the book, undertaking to restrict retail sales to a price of one dollar per copy.
>
> " *The precise question*, therefore, *in this case is, does the sole right to vend* (named in Sec. 4952) secure to the owner of the copyright the right, *after* a sale of the book to a purchaser, to restrict *future* sales of the book at retail, to the right to sell it at a certain price per copy, *because of a notice in the book* that a sale at a different price will be treated as an infringement, which notice has been brought home to one undertak-

ing to sell for less than the named sum? We do not think the statute can be given such a construction, and it is to be remembered that this is purely a question of statutory construction. *There is no claim in this case of contract limitation, nor license agreement* controlling the subsequent sales of the book.

"In our view the copyright statutes, while protecting the owner of the copyright in his right to multiply and sell his production, do not create the right to impose, *by notice, such as is disclosed in this case*, a limitation at which the book shall be sold at retail by future purchasers, *with whom there is no privity of contract.*"

Accordingly, the Court held that the attempt to restrict resale prices by such "mere notice" was ineffective.

And, by apparently necessary inference, if the restraint had been imposed *by restrictive agreement* between the Bobbs-Merrill Company and Straus, the decision would have *sustained* the validity of the restriction.

The next case involving attempted price restrictions, was *Dr. Miles Medical Co. v. Park*, 220 U. S., 373, at 405, in which it was held that an interlocking system of contracts between the manufacturer of a proprietary medicine (under a secret but *unpatented* process), and his wholesale and retail dealers, by which the manufacturer sought to control not merely the prices at which his said dealers sold the product, but also to control as against a dealer who had refused to enter into such contract, the prices at which he might resell, was unlawful as in restraint of trade. There was no privity or contract relation between the parties plaintiff and defendant.

No question of patent or copyright law was involved, although complainant's theory was that a remedy made by secret process was entitled to peculiar protection analogous to that afforded by statute to patented articles. The Court held that the products of mere secret processes, not protected by

patent, are not entitled to any greater consideration than other free articles of commerce.

The decision is of interest in the case at bar, under question 4, rather than under Questions 2 or 3.

The next decision was in *Henry v. Dick*, 224 U. S., 1.

The patentee sold a patented mimeograph machine, and by a "*license notice*" attached thereto, attempted to restrict the *use* of the machine so that it could be used by purchasers of the machine only with special paper, ink and other *unpatented* supplies made by the patentee.

The Court held that a dealer in ink suitable for use with the machine, who sold ink to a licensee, with knowledge of the license restrictions and with the expectation that it would be used in connection with the machine, was a contributory infringer.

In the dissenting opinion, the language of Mr. Chief Justice WHITE seems to plainly indicate the view that the patentee may in a suit (like the one at bar) against a person *with whom he has made a restrictive agreement treat as an infringement* an act done in violation of such agreement.

Thus, after referring (on p. 53) to the fact that the effect of the decision in the Dick case was that the patentee has the power "to extend his patent rights so as to bring within the claims of his patent things which are not embraced therein," he states, apparently as a further reason why the decision of the Court went beyond what should be regarded as an enforcible contract the violation of which would be *an infringement* (p. 54):

> "and bearing in mind that *this is not* the suit of a patentee *against one with whom he has contracted* to enforce as *against such person* an act done in violation of a contract *as an infringement*, but it is against *a third person* who *happened to deal in an ordinary commodity of general use* with a person with whom the patentee had contracted."

THE CASE AT BAR IS THE SUIT OF A PATENTEE AGAINST ONE WITH WHOM HE HAS CONTRACTED CONCERNING THE SUBJECT MATTER WITHIN THE SCOPE OF THE PATENT, VIZ., THE RIGHT TO SELL THE PATENTED ARTICLE, AND TO RESTRAIN, AS AN INFRINGEMENT, AN ACT DONE IN VIOLATION OF THE CONTRACT.

While the decision in the Dick case has since been overruled (*Motion Picture Co. v. Universal Film Co.*, 243 U. S., 502), on the ground (p. 516) that :

> " The exclusive right granted in every patent *must be limited to the invention described* in the claims of *the patent*, and that it is not competent for the owner of a patent *by notice attached to its machine to, in effect, extend the scope of its patent monopoly by restricting the use of it* to materials necessary in its operations *but which are no part of the patented invention*,"

we find in the opinion in the Motion Picture case no indication that certain other established rules and conclusions, expressed in the opinion of the Court in Henry v. Dick were, either disapproved or modified, thus :

(a) Subject to the limitation that the exercise of the patent monopoly rights must be kept *within the scope of the patented invention*, there was no disapproval of the rule (Henry v. Dick, 224 U. S., 1, at 19), that "by a sale of a patented article *subject to no conditions* the purchaser undeniably acquires the right to use the article for all the purposes of the patent," etc., and that " by such an *unconditional* sale of the thing patented it is said to be ' no longer within the limits of the monopoly.' " Nor was there any overruling of the earlier decisions of this court cited on page 19, by which that rule had become interpreted and firmly established.

(b) Nor was there any disapproval of the reasoning or conclusions stated on pages 20 to 25 (Dick case) by which the Court emphasized the points (for which we are contending in

the case at bar) : that *the only kind of sale* of the patented article which operates *to free it from the monopoly is* " *an absolute and unconditional sale* " (p. 23) ; that the *reason* for the rule is " because *such* a sale *implies* that the patentee consents that the purchaser may use the machine so long as its identity is preserved " (p. 23) ; and that " if the right of use *be confined by specific reservation*, the use *not permitted* is necessarily *reserved to the patentee.* If that reserved control of use of the machine be violated, the patent is thereby invaded. The right to sever ownership and use is deducible from the nature of a patent monopoly and is recognized in the cases " (pp. 24–25).

(c) Nor was there any disapproval of the conclusions quoted with approval (p. 39) from the language of Judge (now Mr. Justice) VAN DEVANTER in *National Phonograph Co. v. Schlegel*, 128 Fed. Rep. (C. C. A., 8th C.), 733, 735, applying the same reasoning to sales with reserved control over resales, viz. : " to the extent that the sale is subject to any restriction upon the use *or future sale* the article *has not been released from the monopoly*," *etc.*

Moreover, both the Motion Picture case and *Straus v. Victor Talking Machine Co.*, 243 U. S., 490 (decided at the same time), were expressly limited in effect to cases in which the patent monopoly control was sought to be exercised through *mere notice* attached to the goods, and against purchasers in the open market who had acquired complete title to the patented article without any contractual relations with the patentee, and, therefore, *did not, by a direct agreement with the patentee, assent to the restriction.*

And in the Court's opinion in the Motion Picture case, we find the following language, the italicised portion of which seems to plainly indicate that a patentee *may, as a part of the very transaction by which* he disposes of his patented article, impose on his vendee a valid *condition* or *restriction* as to resale prices, if such restriction be imposed *by the contract* which evidences the transaction, and not by *mere notice* through

which the restriction is sought to be imposed *after* the sale had occurred; thus (243 U. S., p. 516):

> "But this court" (referring to its decision in the *Bauer* case), "decided that the owner of a patent is not authorized by either the letter or the purpose of the law *to fix, by notice*, the price at which a patented article must be sold *after* the first sale of it, declaring that the right to vend is exhausted by a single, *unconditional* sale, the article sold being thereby carried outside the monopoly of the patent law, etc., * * *. The statutory authority to grant the exclusive right to '*use*' a patented machine *is not greater*, indeed *it is precisely the same*, as the authority to grant the exclusive right to '*vend*,' and, looking to that authority, for the reasons stated in this opinion we are convinced that the exclusive right granted in every patent must be limited to the invention described in the claims of the patent and that *it is not competent* for the owner of a patent *by notice attached to its machine to*, in effect, *extend the scope of its patent monopoly* by restricting the use of it *to materials* * * * *which are no part of the patented invention*, or to send its machines forth into the channels of trade of the country *subject to conditions* as to use or royalty to be paid *to be imposed thereafter* at the discretion of such patent owner."

Therefore, neither the Motion Picture case nor the *Victor* case, has modified the point decided in the Bement case, that a restriction on selling prices *reserved by a direct agreement between the patentee and his grantee*, and thus *assented to* by the latter, is a *valid exercise of the patent monopoly rights.*

The only other decision of this Court remaining for consideration on this point, is *Bauer v. O'Donnell*, 229 U. S., 1 (the "Sanatogen" case).

We respectfully contend that the above point as decided in the Bement case, was not weakened or modified by the decision in the Bauer case.

Plaintiffs owned letters patent covering Sanatogen and the process of manufacturing it. They distributed it in the United States through the Bauer Chemical Company, as *sole agent and licensee* for the *sale of said product in the United States*, the contract contemplating that the Bauer Chemical Co. should have power to fix the price to wholesalers, distributors, retailers and the public.

The product was uniformly supplied to the trade and public in sealed packages bearing the name "Sanatogen," a reference to the patent, etc., and *a notice to the retailer to the effect that this size package is licensed for sale and use at a price not less than $1.00*, and any sale *in violation of said condition* or use when so sold *would constitute an infringement*, etc.; also that a purchase is an acceptance of the condition.

Defendant was the proprietor of a retail drug store; *he purchased* original packages of Sanatogen, bearing the above notice, *from jobbers* who had purchased from plaintiffs; *he was under no agreement with plaintiffs;* and he sold such packages at retail at less than the fixed price, and averred that he would continue to do so. Upon above facts, this Court stated the question thereby presented for decision, thus (p. 9):

> "The question propounded is: 'Did the acts of the appellee, in retailing at less than the price *fixed in said notice*, original packages of "Sanatogen" *purchased of jobbers as aforesaid, constitute infringement of appellant's patent?*'"

After explaining the purpose, history and provisions of the patent laws, and that the right to make, use and sell an invented article is not derived from such laws, but existed before they were passed as always the right of an inventor, the Court showed that the act did secure to the inventor (p. 10)

> "the *exclusive* right to make, use and *vend* the thing patented, and consequently to prevent others from ex-

ercising like privileges without the consent of the patentee."

The Court then *restated* the question to be determined, thus (p. 11):

> "May a patentee *by notice* limit the price at which *future* retail sales of the patented article may be made, such article being *in the hands of a retailer* by purchase *from a jobber who has paid* to *the agent of the patentee the full price asked for the article sold?*"

The Court then commented on its decision in the Dr. Miles Medical case (220 U. S., 373) as holding that the attempt shown in that case, by agreements covering articles *not protected by the patent monopoly* to fix the price of an article of general use, would be against public policy and void; but the Court stated that by no previous decision had it determined whether *a mere notice* would be effective concerning an article *protected by patent*, although the question had been dealt with, in respect of copyrights, in the case of Bobbs-Merrill Co. v. Straus (210 U. S., 339), concerning which the Court said (Bauer case, p. 12):

> "It was there held that the statute, in securing to the holder of the copyright the sole right *to vend* copies of the book, conferred a privilege which, when the book was sold, was exercised by the holder, and that the right secured by the statute was thereby exhausted. The court also held that it was not the purpose of the law to grant the further right *to qualify the title of future* purchasers *by means of the printed notice affixed to the book*, and that to give such right would extend the statute beyond its fair meaning and secure privileges not intended to be covered by the act of Congress. In that case it was recognized that there are differences between the copyright statute and the patent statute, and the purpose to decide the question now before us was expressly disclaimed."

The Court then interpreted the copyright act (Section 4925, R. S.), and held that the word " vend " in the patent statute and " vending " in the copyright statute are identical in meaning, and said (p. 13) :

> " It is apparent that the principal difference in the enactment lies in the presence of the word '*use*' in the patent statute and *its absence* in the copyright law. An inventor has not only the exclusive right to make and vend his invention or discovery, but he has the like right to use it, and when a case comes fairly within the grant of the right to use, that use should be protected by all means properly within the scope of the statute " (citing *Bement v. National Harrow Co.*, 186 U. S., 70),

which case the Court said " was one arising upon *license agreements* and did not involve the construction of the patent act *in the circumstances now disclosed*," which we understand to mean in the case of an attempt *by mere notice* to restrict selling prices.

The Court held that the real nature of the transaction in the Sanatogen case was not a qualified license *to use*, but was an *absolute sale* with an added attempt, *by mere notice*, to restrict selling prices of an article *which had previously become freed in the open market*, and said (p. 16) :

> " The real question is whether *in the exclusive right secured by statute* to '*vend*' a patented article *there is included* the right, *by notice*, to dictate the price at which subsequent sales of the article may be made. The *patentee relies solely upon the notice quoted to control future prices* in the resale by a purchaser of an article said to be of great utility and highly desirable for general use. The appellee and the jobbers from whom he purchased were neither *the agents nor the licensees of the patentee.* They had the title to, and the right to sell, the article purchased without accounting for the proceeds to the patentee and without making any further payment than had already been made in the pur-

> chase from the agent of the patentee. Upon such facts as are now presented we think the right to *vend* secured in the patent statute is not distinguishable from the right of *vending* given in the copyright act. In both instances it was the intention of Congress to secure an exclusive right to sell, and there is *no grant* of a privilege to keep up prices and prevent competition *by notices* restricting the price at which the article may be resold. The *right to vend conferred* by the patent law has been exercised, and *the added restriction is beyond the protection and purpose of the act.* This being so, the case is brought within that line of cases in which this court *from the beginning* has held that a patentee *who has parted with a patented machine by passing title to a purchaser has placed the article beyond the limits of the monopoly secured by the patent act,*" citing *Adams v. Burke*, 17 Wall., 453; *Bloomer v. McQuewan*, 14 How., 539; *Chaffee v. Belting Co.*, 22 How., 217; *Keeler v. Standard Fold. Bed Co.*, 157 U. S., 659.

We have ventured to thus quote at length from the opinion in the Bauer case, because in our opinion it is not only not inconsistent with the opinion of Judge GEIGER in the case at bar, but impliedly confirms it.

In the case at bar, as in the Bement case, the restriction upon selling prices was *reserved,* not by *mere notice* attached to the patented article (as in the Bobbs-Merrill, Bauer, Victor and Motion Picture cases), but *by direct agreement between the patentee and his grantee at the very instant of the transaction;* and the restriction was *adjudged to be valid as within the patent monopoly, not against one who had bought in the open market without assenting to the restriction* (as in the *Bauer* and other cases), but against *the patentee's immediate grantee who had accepted and assented to receiving the title to the patented articles subject to an expressed restriction upon his right to sell it.*

Those distinctions seem fundamental, and the great care with which, in the Bauer, Victor and Motion Picture cases, the

opinions limit the conclusions there reached to "*mere notice*" cases, seem to require the conclusion that a reservation of price control *would have been held valid*, as against the patentee's grantee, if evidenced by *a direct agreement between the patentee and his immediate grantee*, and if (Motion Picture case), the subject matter sought to be restricted had been *within the scope of the monopoly.*

The opinions seem to require that conclusion *by necessary inference* from *what is said.*

It will be helpful in this connection to refer briefly to certain decisions of other Federal Courts, both before and since the Bauer decision, upon the question here presented by Questions 2 and 3.

In *National Phonograph Co. v. Schlegel*, 128 Fed. Rep., 733, (C. C. A., 8th C.; VAN DEVANTER, SANBORN and THAYER, JJ.), it was held that the exclusive licensee for the *sale* of patented articles, controls the monopoly to the extent of such sales, and may attach such conditions as he sees fit to sales made under his license; and that *a contract direct with a jobber, restricting the selling prices of the latter is valid*, and *within the patent laws.*

In so deciding, the Court, speaking by Judge (now Mr. Justice) VAN DEVANTER, said (p. 735):

> "An *unconditional or unrestricted* sale by the patentee, or by a licensee authorized to make such sale, of an article embodying the patented invention or discovery, *passes the article without the limits of the monopoly*, and authorizes the buyer to use or sell it without restriction; but *to the extent* that the sale is subject to any restriction upon the use *or future sale* the article *has not been released from the monopoly*, but is within its limits, and, as against all who have notice of the restriction, is subject to the control of whoever retains the monopoly. This results from the fact that the monopoly is a substantial property right conferred by law as an inducement or stimu-

lus to useful invention and discovery, and that *it rests with the owner to say what part of this property he will reserve to himself, and what part he will transfer to others, and upon what terms he will make the transfer.* Bement v. National Harrow Co., 186 U. S., 70, 22 Sup. Ct., 747, 46 L. Ed., 1058; Victor Talking Machine Co. v. The Fair (C. C. A.), 123 Fed., 424; Dickerson v. Tinling, 28 C. C. A., 139, 84 Fed., 192; Heaton-Peninsular Button Fastener Co. v. Eureka Specialty Co., 25 C. C. A., 267, 77 Fed., 288, 35 L. R. A., 728; Cortelyou v. Lowe, 49 C. C. A., 671, 111 Fed., 1005; Edison Phonograph Co. v. Kaufmann (C. C.), 105 Fed., 960; Edison Phonograph Co. v. Pike (C. C.), 116 Fed., 863; Fowle v. Park, 131 U. S., 88, 9 Sup. Ct., 658, 33 L. Ed., 67; Garst v. Harris, 177 Mass., 72, 58 N. E., 174."

The conclusions thus stated, seem to be correct under the recent decisions of this Court, except that: *(a)* An attempted reservation, in order to be within the patent monopoly, rather than a mere outside or collateral agreement, must involve, and be limited to, a subject matter which *is within the monopoly* (Motion Picture case); and *(b)* when unconditional title to the patented article has passed, a restriction as to future sale or use cannot be engrafted thereon as against a purchaser in the open market, *by mere notice attached to the goods.*

In *United States v. Keystone Watch Case Co.* (D. C. Pa), 218 Fed. Rep., 502 (BUFFINGTON, HUNT and MCPHERSON, JJ.), defendant made a watch movement known as the "Howard," material parts of which were covered by patent. Defendant, in selling to jobbers, made *direct agreements restricting the prices* at which they might sell the watch to retailers; he also attempted, by *mere notice* on the boxes in which the watch was sold, to restrict the prices at which the retailers should sell.

Held, that the restriction upon the jobbers, having been *reserved by direct agreement*, with the patentee, *was within defendant's rights under the patent law;* but that when defendant sold to the jobber, it had fully exercised its right, and that *the*

further attempt, by *mere notice*, to restrict further sales by retailers, was an unlawful restraint of trade. In so deciding, the Court said (p. 514) :

> "The other subject is the system under which the Howard watch was sold. The defendant company attempted to restrict the prices at which the *wholesaler* or *jobber might sell to the retailer*, and to this end made a *direct agreement with the jobber*. As we understand the decisions, such an agreement was *within the company's lawful rights*. Certain material parts of the Howard watch were *covered* by *bona fide patents* taken out and used for a lawful purpose, and *as the owner of these patents* the company *had the right to make a direct agreement with the jobbers whereby a minimum price was fixed at which the jobber might sell*. Bement v. Harrow Co., 186 U. S., 70, 22 Sup. Ct., 747, 46 L. Ed., 1058; Henry v. Dick Co., 224 U. S., 1, 32 Sup. Ct., 364, 56 L. Ed., 645, Ann. Cas., 1913D, 880. But the company *went further*, and *by mere notice to the retailer*, accompanying the box in which the watch was sold by the jobber, *attempted to fix the minimum price at which the retailer might sell to the consumer. No direct agreement was made with the retailer.* When the company sold the watch to the jobber it had fully exercised its right to vend, and had no right *to use the notice subsequently given* in order to control the price at which the retailer might sell. Bauer v. O'Donnell, 229 U. S., 1, 33 Sup. Ct., 616, 57 L. Ed., 1041, 50 L. R. A. (N. S.) 1185."

In *Victor Talking Machine Co. vs. The Fair*, 123 Fed. Rep. (C. A. A. 7th C.), 424, 426 (1903), it was held that the owner of a patent who manufactures and sells the patented article may reserve to himself as an ungranted part of his monopoly *the right to fix and control the prices at which jobbers or dealers buying from him may sell to the public.*

It was also held (p. 425), that when the nature of the suit is to restrain an unauthorized use of a patent right, *the action arises out of the patent laws*, even though it also draws into

consideration and determination an interpretation *of the contract.*

Turning next to cases decided by other Federal Courts since the decision (May, 1913), in the Bauer case (as showing the interpretation which other Federal Courts have placed upon it), we invite attention first, to the opinion of the District Court (GEIGER, J.,) in the case at bar (225 Fed. Rep., 785).

The Court said page 785 :

> " The case is of importance only in so far as it presents the question : Can a patentee, upon a sale of a patented article, by contract require of his immediate vendee the observance of price restrictions upon resale ?
>
> " Prior to the decision in *Bauer v. O'Donnell*, 229 U. S., 1, 33 Sup. Ct., 616, 57 L. Ed., 1041, 50 L. R. A. (N. S.), 1185, Ann. Cas., 1915 A., 150, this question now raised upon the motion to dismiss, would have received an affirmative answer on the authority of *Victor v. The Fair*, 123 Fed., 424, 61 C. C. A., 58, the cases therein cited, *Bement v. Harrow Co.*, 186 U. S., 70, 22 Sup. Ct., 747, 46 L. Ed., 1058, *Henry v. Dick*, 224 U. S., 1, 32 Sup. Ct., 364, 56 L. Ed., 645, Ann. Cas., 1913 D., 880, and certain other cases, particularly the so-called Anti-Trust Cases, which involve patents and patent rights. The determination of the motion, as I think, *depends upon the effect, if any, to be given to Bobbs-Merrill Co. v. Straus*, 210 U. S., 339, 28 Sup. Ct., 722, 53 L. Ed., 1086, and *Bauer v. O'Donnell*, 229 U. S., 1, 33 Sup. Ct., 616, 57 L. Ed., 1041, 50 L. R. A. (N. S.), 1185, Ann. Cas., 1915 A., 150, as modifying the views thus heretofore entertained.
>
> " Now, in the *Bobbs-Merrill* case, it was held that the exclusive right of vending a publication, as secured by the copyright statute, did not confer the right, *by notice*, to burden the copyrighted article with respect to resale price, in whosesoever hands it may come ; that is to say, it was held that the right of vending does not include that manner of qualifying title to the thing sold.

This seemed to be of the essence of the holding, for the court said :

" ' The learned counsel for the appellant in this case, in the argument at bar, disclaims relief *because of any contract*, and *relies solely upon the copyright statutes*, and rights therein conferred ' (210 U. S., 346, 28 Sup. Ct., 724, 52 L. Ed., 1086).

" Again :

" ' The *precise question*, therefore, in this case is : Does the sole right to vend (named in section 4952) secure to the owner of the copyright the right, *after a sale* of the book to a purchaser, to restrict future sales of the book at retail, to the right to sell it at a certain price per copy, *because of a notice in the book that a sale at a different price will be treated as an infringement*, which notice has been brought home to one undertaking to sell for less than the named sum ? We do not think the statute can be given such a construction, and it is to be remembered that this is purely a question of statutory construction. *There is no claim in this case of contract limitation, nor license agreement controlling the subsequent sales of the book.*'

" *Bauer v. O'Donnell* presented, in respect of a patented article, the identical facts of the *Bobbs-Merrill* case ; and twice the Court stated the proposition for decision thus :

(1) ' May a patentee *by notice* limit the price at which future retail sales of the patented article may be made, such article being in the hands of a *retailer by a purchase from a jobber*, who has paid to the agent of the patentee the full price asked for the article sold ? '

(2) ' The real question is whether in the exclusive right secured by statute to " vend " a patented article, there is included the right, *by notice*, to dictate the price at which subsequent sales of the article may be made. The patentee relies solely *upon the notice* quoted to control future prices in the resale by a

purchaser of an article said to be of great utility and highly desirable for general use.' "

" The decision in substance is that, when the patentee sells, he cannot thereafter impeach the fact of sale, nor the transfer of title of the article, by claiming that he had *affixed a notice thereto* which *qualified the right of the seller or purchaser* on resale to agree upon any price; but the question here is: Can a patentee, while in the act of exercising his monopolistic right of sale, lawfully bind his vendee to terms of resale to be respected by the latter? It is the question which in the *Victor* case, 123 Fed., 424, 61 C. C. A., 58, *supra*, was somewhat more broadly stated to involve these facts:

"' The bill very clearly shows that appellants said to the jobber: ' We are unwilling to part with the whole of our monopoly. There are no terms on which we will give you an unrestricted right to deal in our machines. However, if you choose to pay our price for a limited right, we will place our machines in your hands to be sold by you, or by dealers under you, to the public at not less than $25 each'—and that the jobber *explicitly accepted this offer.*' "

" GRANT THAT A PATENTEE CANNOT, BY MERE NOTICE, BURDEN AN ARTICLE DURING THE LIFE OF THE PATENT WITH A RESALE PRICE RESTRICTION, THAT HE CANNOT MAKE A NOTICE ATTACHED TO THE ARTICLE DISCHARGE THE FUNCTION OF A ' COVENANT RUNNING WITH THE LAND,' AS IN REAL ESTATE SALES, AND THAT WHEN HE SELLS, HE SELLS, WE STILL HAVE THE QUESTION: HOW EFFECTIVELY CAN HE AND HIS VENDEE BARGAIN RESPECTING THE EXERCISE OF HIS EXCLUSIVE RIGHT OF SALE? IF IT BE THE LAW THAT HE CANNOT MAKE ANY BARGAIN WITH HIS VENDEE WHICH INVOLVES PRICE RESTRICTION, THEN, OF COURSE, IN THAT RESPECT HE IS ON COMPETITIVE, AND NOT ON MONOPOLISTIC, GROUND. HE IS IN THE POSITION WHERE HE MAY RIGHTFULLY WITHHOLD THE MANUFACTURE, USE, AND SALE FROM THE WHOLE PUBLIC, AND YET, WHEN HE PROCEEDS TO SELL, MUST SUBMIT TO THE VERY POLICY WHICH THE PUBLIC, IN GRANTING HIM THE MONOPOLY, HAS SURRENDERED TO HIM.

"Now, as I view the recent adjudications, the *Victor* case, *supra*, has two aspects which are significant: First, it announces the general proposition that the patentee and his vendee may bargain in any way respecting the scope of the former's release of his monopoly right. Therein it is in accord with the later cases (*Bement*, *Dick*, and the *Anti-Trust* cases). Secondly, that *the notice* affixed to the patented article *is a sufficient reservation* of his right as between himself and the public. *Therein, it is clearly overruled by Bauer vs. O'Donnell. If the general proposition first above is also overruled, it seems difficult to find a foundation for the cases which subsequently affirmed it.* That such *is not the intended effect of the Bauer case, seems clear from the language used in stating the question therein to be decided*, as well as the direct affirmance of the *Bement* and *Dick* cases, which involve, fundamentally, that very proposition.

"It is suggested that the distinction between the *Bement*, *Creamery Package* (179 Fed., 115, 102 C. C. A., 413), *Bath Tub* (226 U. S., 20, 33 Sup. Ct., 9, 57 L. Ed., 107) and *Rubber Tire Wheel* (154 Fed., 358, 83 C. C. A., 336), cases and the present case is this:

"That the patentee may sell or assign his *right to sell*, and *introduce a covenant for price restriction;* that he may sell his right to *manufacture and sell*, and *introduce a covenant for price restriction;* but that he cannot *sell his own patented article* and *compel his vendee to observe a covenant for a resale price.* This attempted distinction, it seems to me, *loses sight of the fundamental notion of the patentee's right.* It does not help to say that after a patentee has exhausted his right, he can no longer exercise it; or that when he has once sold to an individual for a full price, the public cannot be barred from the full and unrestricted use and right of resale. Those are truisms. But *what distinction is there between selling* or assigning *the right to sell*—to speak plainly, between *licensing to sell on terms of resale* and *selling* the patented article *on terms of resale?* Each is or involves the bargaining away of *the right secured by the patent*, though *the form* of obligation or the

manner of exercising may be different. Naturally, an absolute sale by a patentee of his patented article is the highest form of license through which the purchaser and the public are admitted to the inventor's right, so far as they may enjoy it, in the use and sale of the particular article embodying the invention. In each case, however, the licensee or vendee acquires the same right, having the same origin, and in no event exercisable without permission of the patentee.

"In each, the transmission by the patentee of a whole or a part of the exclusive right which has been granted him with respect to his inventive concept is (in whole or in part) the subject of the bargain; and the fact that, in the one, the bargain also involves the transfer of title to a physical thing, embodying the concept, does not furnish a basis for distinguishing the situations in so far as they fundamentally have this common element which no one can enjoy or practice unless he can make terms with the patentee.

"The covenant for price restriction in the *Bement* and other cases referred to, although found in a *license* to manufacture *and sell, was germane to the patentee's exclusive right of sale.* It was *assumed* in all of these cases that *such covenant was prima facie* violative of public policy, but that it was met and overcome by the fact that the public, through the grant of the patent, had given the articles to be sold, a status which enabled monopolistic bargaining; that therefore the rules respecting ordinary sales could not apply. *It is impossible,* in my judgment, *to draw a tenable distinction between those cases and the case of a direct sale by the patentee of his patented article.*

"To state it again, in different form: If the patentee may say to the world, 'I will confer upon anyone, by license, the right to manufacture *and sell* my patented article, provided he will observe a price, fixed by me at which the article is sold to another'—he can say, 'I will manufacture the patented articles myself, and I will sell to *no one except on condition that he observe a resale price* to be fixed by me.' And he can do so for the reason that the article,

because of its embodiment of the invention, has been made a subject of lawfully restrictive price bargaining; and the *Wall Paper* (212 U. S., 233, 29 Sup. Ct., 280, 53 L. Ed., 486), and *Dr. Miles Medical* (220 U. S., 393, 31 Sup. Ct., 376, 55 L. Ed., 502), cases are most persuasive in supporting such view. The language of the Supreme Court in the *Miles* case (See 220 U. S., 401, 31 Sup. Ct., 376, 55 L. Ed., 502), *could give no clearer recognition* to the full right of the patentee *to bargain* for price restriction. The statement is *almost made in plain words* that, if the proprietary medicine *were a patented article*, the contract there in question would, as *between the parties*, receive the protection of the patent laws as construed in the *Bement* case.

"In view of the language in *Bauer vs. O'Donnell*, which discloses so clear a purpose to limit it to the precise facts, *it is my judgment that it does not*, and was not intended to, *overrule the other cases*, which *seem so firmly to have established the general proposition upon which the sufficiency of the complaint in the present case depends*. In other words, the complaint shows a contract which, against the defendant, as a purchaser from the patentee, is valid and enforcible.

"I appreciate that these views may not be in harmony with those expressed in other jurisdictions since the decision in *Bauer vs. O'Donnell*, and for that reason have reduced them to the form of a memorandum.

"The conclusions are:

"(1) That *Dick v. Henry*, *Bement v. Harrow Co.*, *Victor v. The Fair*, and the other cases, *supra*, so far as they permit a patentee, *while exercising* any of his three co-ordinate monopoly rights, by proper agreement to reserve such portion thereof as he sees fit, *have not been overruled* by *Bauer v. O'Donnell;* but that, after he has once allowed the patented article to pass out of the monopoly, without committing, by proper agreement, the one to whom the article comes, to the observance of an obligation on his part, *he cannot then recall it*, or claim that, *by a notice*, he burdened the article with such reservation.

"(2) That an agent or vendee of a patentee may, by

direct covenant or agreement, be bound to the observance of price restriction, *imposed as a condition upon which exclusive right of sale by the patentee is being exercised.* Whether a violation of such agreement be dealt with as *for infringement* or *breach of a contract*, enforcible in equity, is immaterial as between the patentee and his contractee, save only as it may affect the jurisdiction to be invoked.

"(3) That the complaint states a good cause of action against the defendant. If the contract is to be taken as the measure of the defendant's right, it seems to me that a failure to observe its explicit stipulation *constitutes infringement.* Certainly the breach of the agreement, if valid, should entitle plaintiffs to relief in equity."

We respectfully submit that the views above expressed by Judge GEIGER, are not inconsistent with the later decisions of this Court in the Motion Picture and Victor cases. They are sound even when tested by those (the latest) rulings of this Court.

The recent overruling of the decision in Henry v. Dick, does not impair the soundness of Judge GEIGER'S conclusions, because:

(a) in the Dick case the *subject matter* sought to be subjected to the monopoly control, was *outside* the scope of the patent, *i. e.*, selling *unpatented* articles.

In the case at bar, it is *within* the scope of the patent, *i. e.*, selling *the patented articles;* and

(b), in the Dick case the restriction was sought to be imposed *by mere notice*, and against one who had bought *in the open market.*

In the case at bar, the restriction was expressed in *a direct agreement with the patentee, made at the very instant of the transaction*, and is sought to be enforced against *a vendee* who takes direct from the patentee and who receives the article under an express contract with the patentee, which limits and qualifies his title and rights.

There are also two decisions, each in a suit brought by the Ford Motor Co., *i. e.*, *Ford v. Union Motor Sales Co.*, 244 Fed. Rep., 156 (C. C. A. 6th C.), decided August 1, 1917; and *Ford v. Boone*, 244 Fed. Rep., 335 (C. C. A. 9th C.), decided August 20, 1917.

Both Ford cases are to be distinguished from the case at bar, in the fact that the suits (like that in the Dr. Miles case), were (in part at least), to restrain *retailers*, who were *under no restrictive agreements* with the patentee, from inducing Ford dealers who *were* under restrictive agreements, to *violate such restrictions* and sell to them at cut prices.

In the former case the Court construed the contracts between the Ford Company and its dealers, to be (p. 157) "essentially one *of absolute sale*," and accordingly it also held that (p. 157) "at least as against a purchaser from such dealer," the attempt to enforce a price restriction, was *invalid*.

In the latter case (244 Fed. Rep., 335) the Court also construed the dealers' contract and held,—(p. 340) that,

> "Even if it be held that the contract under consideration does not create an agency in the strict sense, but in effect provides *for a sale*, it is still clearly the understanding of the parties that it is *a conditional or restricted sale*," etc.

Thereupon the Court proceeded to consider whether the attempted restriction evidenced by the Ford Company's contracts with its dealers was valid, and held that it was valid as between them.

In relation to the first of said Ford cases, and to Judge GEIGER's opinion in the case at bar, it is of value to note here, that the distinction which Judge HOLLISTER attempted to make in the first Ford case when deciding it in the District Court (Ford v. Union Motor Sales Co., 225 Fed. Rep., 373, at 379), between the patentee's selling *the right to sell* the patented article, *i. e.*, licensing to sell on conditions as to resale,—and his selling *the article itself* on conditions as to resale,—

was not adopted or followed by the Court of Appeals in its opinion, although it affirmed the decision on other grounds which we have indicated above.

Judge GEIGER held in the case at bar (225 Fed. Rep., 785, at 787), that there is no such distinction, and that the attempt to find one, "loses sight of the fundamental notion of the patentee's right," etc.

The attempted distinction sought to be made by Judge HOLLISTER, which was not adopted by the Court of Appeals of his Circuit, and which was rejected by Judge GEIGER, is now pressed upon this Court by counsel for appellant in the case at bar (Appellant's brief, p. 28).

We respectfully submit that Judge GEIGER'S conclusion was correct when interpreted (as he undoubtedly intended) with the distinction in mind between the title to the physical object, and the monopoly rights in respect of it.

Bearing in mind, that the patentee owns in respect of a patented article made by him, the two different kinds of property,—(1) corporeal property, being his title to the physical article, and (2), incorporeal property, being his exclusive right to exercise the monopoly rights to make, use, and sell,—and that he may deal with each of said kinds of property and rights separately and divisibly, let us inquire first what is *the nature of the subject matter* involved in each of the above suggested transactions, *i. e.*, licensing *to sell* on *conditions as to resale*,—and *selling the article itself* on *conditions as to resale*.

The *subject matter involved* in a patentee's restricted license to *manufacture* and *sell* (the Bement case), clearly *does not include the title to the physical thing*, because the patentee never owns it. The licensee makes the article, and owns it from the beginning. But such a license *does* relate to the *monopoly right to sell*,—*i. e.*, the patentee makes that part of his grant out of his incorporeal right to sell. In such case he may validly license with restrictions as to resale (Bement case); and even though he *neither has nor retains title to the*

physical article. He does, however, retain a part of *his monopoly right to sell.* He licenses *to sell, on conditions as to resale.*

Next, take the case of a patentee who *himself* makes and sells the patented article.

He may *sell* the *physical article,* expressly *separating from that title,* and *reserving in himself,* all his monopoly rights except that portion of the right to make, which was exercised in the making of that particular article. In such case, the sale of the physical article would be upon valid restrictive conditions forbidding any *use* or *resale,* but the *subject matter granted* would be the *corporeal property only; no part of the monopoly rights would pass.*

The patentee did not sell *the right to make,* or *to use,* or *to sell;* he merely sold "the article itself," on conditions restricting resale. The result would be identical with that in the case of a license to make a single sample of the patented article, without any right to use or sell it, in which case the licensee by exercising his limited right to make, would *own* the physical property in one of *the patented articles,* but would not have the right *to make* such articles nor *to use* or *sell* the one he owned (2 Robinson on Pats., Sec. 811).

And since, in selling the article itself, he may thus impose conditions, or reserve rights, which *entirely* prevent use or resale by his vendee,—it follows that he may also, in selling the article itself, reserve rights which impose *partial* restraints upon resale.

It is, therefore, clear that so *far as controlling the monopoly right is concerned,* there is no distinction in essence between a restricted sale by the patentee of *the right to sell,* and a sale of *the article itself subject to a similarly restricted right to sell it.*

The apparent distinction that the title to the physical article passes in the latter case but *does not in the former,* is immaterial as affecting the *monopoly right involved.* The sole effect of the distinction is that in the latter case *corporeal*

property *also* passed ; but it passed with exactly the same kind and extent of the separate *incorporeal* property, which passed in the former case.

We, therefore, respectfully submit, that appellant's attempted distinction between selling a restricted "right to sell," and selling "the article itself" with similarly restricted right of resale, is plainly without substance in respect of the patent rights ; and the further contention for appellant that it is of great importance in the case at bar, is, we respectfully submit, without merit. It follows also, that a restricted sale of a patented article *(i. e.*, with the right to resell expressly restricted), constitutes an exercise of a part of the patentee's *monopoly right*, and, therefore, the restrictive agreement *rests upon* and is entitled to protection under *the patent laws*, if either party invokes such protection.

The "gross consideration" feature of Question 3.

That feature of Question 3 which relates *to the gross consideration* received by the patentee upon his making delivery of the patented article, was undoubtedly inserted because the cases which refer to the rule that an unconditional sale by a patentee, of a patented article valuable for its use, commonly add the fact, as an element relevant to the application of the rule, that in parting with the patented article he has received *all the consideration he expects to get*, or "the full price" for what he grants.

We respectfully submit that the questions,—whether the patentee receives his consideration ("royalty", or "selling price"), in gross, or in installments, and whether his consideration be wholly money or partly money and partly covenants of the grantee to observe restrictions affecting the substance of the monopoly rights,—are not conclusive upon the question which *is controlling*, viz. : what was the *real intent* as disclosed by *the substance* (not the mere form) *of the transaction?*

Was it intended to be an unconditional license or sale *of the monopoly rights* as well as of the physical article itself ?

In determining such intent, is it not clear that the nature of the consideration, and when it is received, is merely *one* of the *evidential* facts to be considered in connection with all the other *indicia* of intent?

The mere fact that the consideration is received *in gross* does not necessarily force the conclusion that an absolute assignment of the monopoly right was intended or effected. Thus, in the case of a restricted license *to use* a patented article which is delivered with the instrument of license, the royalty may be, and frequently is, paid *in gross* (2 Robinson on Pats., Sec. 821), or as it accrues from time to time through such use, but *the fact that it is paid in gross* constitutes no evidence of an intent to grant an *unrestricted* right to use, *sufficient to overcome an expressed intent otherwise;* nor does it constitute any evidence of an intent to convey the title to the patented article.

So also, in the case of a restricted license to manufacture in a limited territory and to sell therein at a restricted price (the validity of which has nowhere been questioned), the fact that the royalty has been paid *in gross,* rather than imposed upon the licensee as a continuing personal liability *to be paid in installments,* does not force the conclusion that the license was intended to be *unrestricted, even though the patentee at no time has or retains title to the physical article.*

And the same reasoning seems to require the conclusion that in case of *a sale* of the *physical article subject* to a *reserved control* over *the monopoly right to sell,* the fact that the consideration is received in gross is not *conclusive* on the question of intent. It is merely *one* of the facts to be considered, in order to ascertain the " ultimate " fact, the *intent.*

Moreover, it should be noted, that in some cases (and the case at bar is a significant example), *the observance by the licensee or purchaser, of the restrictions imposed within the patent monopoly,* is of far greater money value to the patentee

than the money consideration which he receives from that particular person.

Who can say, or can contend with merit, that the right to such observance is not also *a substantial part of the consideration*, to be received by the patentee *in the future ?*

A violation of the restrictions by only one person, may cause vast money losses to the patentee. Take the case at bar as an illustration.

The so-called " price maintenance system " of appellees, consists merely in the practice of entering into restrictive agreements (like that set out in the facts certified), with all distributors (dealers) who receive the patented articles *directly* from the patentee. There is no effort to restrict sales, except sales made by the dealers who receive the articles direct from the patentee. So-called " dealers " are alone affected. There is no effort to control the patented article, or its use, or resale, *in the hands of* the *consumers*, the using public. Nor is there any effort to enforce restrictions as against *any one* except the *immediate* or *first taker from the patentee*,—or to interfere with any one, whether dealer or consumer, who buys in the open market, *i. e.*, from *any vendor other than the patentee manufacturer.*

If one such distributor or dealer, who has received a stock of Columbia records under a restrictive contract to which he agreed, and who has substantial influence in any important market, should violate the agreed restriction by cutting prices, it is apparent that the necessary effect would be to at once cause all other dealers in the same market to likewise violate their agreements, or else drive them to the patentee for price concessions to enable them to compete with the cut prices. In either event, the patentee is forced to begin to compete with himself.

If such a result would contribute economically to benefit the using public, something might be said in its favor on the ground of public policy. But it is a matter of common

knowledge, that in respect of articles, like phonograph records, as to which there already exists beween different patentee manufacturers sufficient competition to furnish the using public a number of competing brands, all of good quality, at reasonable prices, no substantial, lasting or net benefit results to the using public from any cause which compels a manufacturer to compete with himself.

Moreover, the contract in connection with other facts certified shows: that the patented products of appellees are marketed under the trade name "Columbia"; and that restrictive contracts are in effect with more than five thousand dealers.

Assuming that such contracts are valid as an exercise of patent monopoly rights, it is at once apparent, that their influence in maintaining and protecting the trade good-will of "Columbia" products is of far reaching importance, and that a transgression of the agreed restrictions by one influential and large dealer, would inflict incalculable damage to the good will of the patentee.

So that the obligation or duty of the restricted dealer, *to observe the restrictions to which he agreed* in order to obtain his stock of "Columbia" products, is of infinitely greater value as a consideration moving to the patentee, than the net price (subject to heavy dealers discounts) which such dealer pays in a lump sum when he receives the goods.

We therefore respectfully submit: that the fact that all of *the money* to be received by a patentee for his grant of restricted monopoly rights, is received ("in gross") "in connection with the act of delivering his patented article,"—does not indicate that he has thereby received all "the *consideration*" which he expects and has the right to receive, because he is still to receive observance of the agreed restrictions; and that even the fact that all of the *consideration* of every kind may have been received, does not necessarily prove that an *unrestricted* monopoly right was intended to pass.

The mere fact that there is a contract between the patentee and his grantee, does not force the conclusion that his right and remedy rest solely upon contract, and not at all upon the patent law.

We have endeavored to show (above) that when a patentee, " in connection with the act of delivering his patented article to another," makes a restricted (as distinguished from an unrestricted) disposal of his monopoly right *to use* or *to sell*, his reservation is lawfully *within the patent law*, and *does not rest merely on contract, if the subject matter of his attempted restriction* is in its essence *within the scope of the monopoly rights granted by his patent.*

But we have not yet shown how that conclusion is to be reconciled with certain language of this Court in a number of cases, of which Keeler v. Standard Folding Bed Co., 157 U. S., 659, at 666, is the leading example. It is relied upon by appellant in the case at bar (Appellant's brief, p. 31), and the contention should be met.

The facts in the Keeler case were : that the Standard Company was assignee " for Massachusetts " of a patent on an improvement in beds ; the Welch Company owned similar rights for the State of Michigan ; the defendant Keeler, doing business in Boston, purchased a car load of the patented beds in Michigan from the Welch Company, for the purpose of selling them in Boston. There are no indications in the reported case that the sale to Keeler was a restricted one, or that any attempt to restrict him by agreement was made. Presumably, therefore, the sale to him of the patented articles was *unconditional.*

The Massachusetts owner of the monopoly (Standard Co.) sued Keeler for violating its monopoly right to sell in Massachusetts.

The question thus presented and decided was clearly limited to the point whether an *unconditional* sale of a patented

article, the value of which is in its use, for a full consideration, frees the article from the monopoly.

On the authority of *Bloomer v. McQuewan*, 14 How., 539 ; *Mitchell v. Hawley*, 16 Wall., 544 ; *Adams v. Burke*, 17 Wall., 453, the Court held that the article had been freed.

But the question of restrictive contract was neither presented nor decided. What the Court said on that subject was, therefore, *obiter dictum*, and the language used so indicates, thus (p. 666) :

> " Whether a patentee may protect himself and his assignees by special contracts brought home to the purchasers is not a question before us, and upon which we express no opinion. *It is, however, obvious that such a question would arise as a question of contract, and not as one under the inherent meaning and effect of the patent laws.*" (The portion which we have italicized above, was there italicized.)

The above quotation was among those used, in the dissenting opinion in Henry v. Dick (224 U. S., 1, at 56), where the line of cases was reviewed, in which a similar view had been expressed.

Those cases require examination in this consideration of the question : When does a contract between a patentee and his immediate distributee, which seeks to impose upon the latter, conditions or restrictions affecting the patented article, rest *solely upon contract*; and when does it *rest also* upon *the monopoly rights granted by the patent laws?*

Before proceeding to examine those cases, it should be stated that so far as we can learn there has been no modification of the rule stated in the opinions of the Court in Henry v. Dick (at p. 14):

> " That the patentee may *waive the tort* and sue upon the broken contract, or in assumpsit, is elementary."

Therefore, the mere fact *that there is a contract* in which the attempted conditions or restrictions are expressed, does not *of itself* force the conclusion that the patentee's rights rest *solely upon contract.* He has his election of remedies.

If his licensee or grantee has violated one of his reserved monopoly rights, he may treat it as an infringement, or he may waive the tort and stand solely upon the contract.

If, on the other hand, his licensee or grantee, has broken some contract covenant which is purely personal in its nature, *i. e.*, which does not involve *as the essence of its subject matter*, some of his *monopoly rights*, then his action does rest solely on the contract, even though it relates to a patented article.

The distinction which we thus seek to make involves the same test which was applied by this Court in deciding the Motion Picture Case and in overruling Henry v. Dick, viz.: that in order to rest upon the patent law, the *essence of the subject matter* of the transaction, must be *within the scope* of one or more of *the monopoly rights granted by the patent.*

Bearing that distinction in mind, we now turn to the line of cases above referred to as discussed in the dissenting opinion in Henry v. Dick, 224 U. S., beginning at p. 56.

They were there cited and commented on, to "refute the existence of a supposed right of *extension by contract* of *the patent laws*" (p. 56). They were not used in support of a contention that the mere *existence* of a contract necessarily makes the jurisdiction referable *to the contract alone.*

The first case cited and quoted from in the Dick case, is *Wilson v. Sandford* (1850), 10 How., 99, concerning which this Court said in part (224 U. S., at p. 56):

> "The facts were these: Wilson granted to Sandford and the other defendants the right *to use* a patented planing machine, *the consideration to be paid in instalments. Each note contained a provision that the title should revert in case of non-payment.*"

The nature of the suit was stated thus by Mr. Chief Justice TANEY, 10 How., 99, at page 101:

> "The object of the bill was *to set aside a contract* made by the appellant with the appellees, by which he had granted them *permission to use*, or *vend to others to be used*, one of Woodworth's planing-machines, in the cities of * * *; and also to *obtain an injunction* against the *further use* of the machine, upon the ground that it was an infringement of his patent rights."

In deciding that the suit *to set aside the contract* did not arise under the patent law the Court said (10 How., p. 101):

> "Now the dispute in this case does not arise under any act of Congress; nor does the decision depend upon the construction of any law in relation to patents. It arises out of the contracts stated in the bill; and there is no act of Congress providing for or regulating contracts of this kind. The rights of the parties depend altogether upon common law and equity principles. The object of the bill is *to have this contract set aside* and declared to be forfeited; and the prayer is, 'that the appellant's reinvestiture of title to the license granted to the appellees, by reason of the forfeiture of the contract, may be sanctioned by the court,' and for an injunction."

With respect to the latter feature the Court said (10 How., at p. 102):

> "But the *injunction* he asks for is *to be the consequence of the decree of the court sanctioning the forfeiture.* He alleges no ground for an injunction *unless the contract is set aside.* And if the case made in the bill was a fit one for relief in equity, it is very clear that whether the contract ought to be declared forfeited or not, in a court of chancery, *depended altogether upon the rules and principles of equity*, and *in no degree whatever upon any act of Congress concerning patent rights.* And whenever a contract is made in relation to them,

> which is not provided for and regulated by Congress, the parties, if any dispute arises, stand upon the same ground with other litigants as to the right of appeal; and the decree of the Circuit Court cannot be revised here, unless the matter in dispute exceeds two thousand dollars."

It will at once be noted that the reason for the above conclusion quoted from Wilson v. Sandford was that the essential nature of the *primary subject matter* of that suit, was the right in equity *to cancel a license contract* for non-payment *of royalties.* The subject matter upon which the case turned was the obligation of the licensee *to pay royalties.* It was then the established rule, and has been the rule ever since then, that a suit *for royalties* is *not a suit arising under the patent laws* (*Briggs v. United Shoe M. Co.*, 239 U. S., 48).

The reason for that rule was, obviously, that the agreement of a licensee or grantee *to pay royalties*, rests entirely upon *his individual covenant.* It does not involve or require any construction of the patent laws, nor of letters patent granted under them, nor of the monopoly rights arising out of them. It relates solely to the consideration which the grantee contracts to pay in consideration of the grant to him of patent rights. The decision in Wilson v. Sandford, therefore, supports the proposition that when a case involves some right claimed under a contract relating to a patented article, or to letters patent, the subject matter of the action rests solely upon the contract, *only in case the monopoly rights granted by the patent law are not drawn into the case as a part of its primary subject matter.* It does not support the proposition that every case involving a contract between a patentee and his licensee or grantee, even though it relates to a patented article, rests upon the contract alone.

The other cases cited in the dissenting opinion in the Dick case, upon the question whether the remedy lies in the State court or under the patent statutes in the Federal court, will

be found to turn upon the same distinction, *i. e.*, in each of them the essential nature of the subject matter of the particular suit held to be referable to the jurisdiction of the State court, was *outside the patent monopoly*, just as the obligation to pay royalty was outside it, in Wilson v. Sandford.

In *Bloomer v. McQuewan*, 14 How., 539, the Court, in referring to the matter of jurisdiction, was speaking of a patented article which it had held was *freed from the present monopoly*, and in respect of such article said, page 550:

> "The implement or machine becomes his private, individual property, not protected by the laws of the United States, but by the laws of the State in which it is situated. Contracts in relation to it are regulated by the laws of the State, and are subject to State jurisdiction," (citing Wilson v. Sandford, 10 How., 99).

In the Bloomer case the possibility of the subject matter arising *out of the patent law* had therefore *been eliminated* because the patented article had become freed from the monopoly.

The next case cited in the dissenting opinion in the Dick case (p. 57), is *Hartshorn v. Day*, 19 How., 211.

There again, the language (quoted in the Dick case), related to a covenant by a licensee of the patent right *to pay a money consideration* to the patentee, and the Court said, page 222:

> "the payment of the annuity was not a condition to the vesting of the interest in the patent in Judson, and of course * the omission or refusal to pay did not give to Chaffee a right to rescind the contract, nor have the effect to remit him to his interest as patentee. The *right to the annuity rested in covenant* * * * *the remedy for the breach could rest only upon the personal obligation of Judson*, as, by the previous one of the 6th of September, *the interest in the patent had passed to Goodyear* and his licensees, and no default or act

> of Judson could affect them. Chaffee chose *to be satisfied with the covenant of Judson, without stipulation or condition as it respected the other parties*, and he must be content with it."

It thus clearly appears in the above case, also, that the *subject matter of the suit did not include any portion of the rights granted by the patent monopoly*, but related entirely to an *outside* individual covenant of the licensee.

The next case cited in the Dick case was *Albright vs. Teas*, 106 U. S., 613.

That case also was one *to recover the consideration for an assignment of patent rights*, but in this instance the transfer was absolute and *unconditional*, so that, as the Court said, page 617 :

> " No right, therefore, secured to the appellee in the patent by any act of Congress *remained in him.* He had no right to prosecute any one *for infringements* of his patent, or to demand damages therefor, or an account of profits.
>
> " He was entitled *to the royalties* secured by his contract, and nothing more."

The Court held that such a case (p. 618) " arises *solely upon the contract*, not upon the patent laws of the United States."

The next case cited in the Dick case (p. 58), is *Dale Co. v. Hyatt*, 125 U. S., 46, and is stated thus in the Dick case (pp. 58, 59) :

> " The plaintiff sued in the state court to recover from one who had been licensed by a patentee to make and use certain patented articles, *to recover royalties* due under the contract. The defendant contended in the state court that the subject-matter was one exclusively cognizable in the courts of the United States because the case was one *arising under the patent laws*

* * * The contention *was held untenable*, and in the course of the opinion the Court said (p. 52):

"'It has been decided that a bill in equity in the Circuit Court of the United States by the owner of letters patent, to enforce a contract for the use of a patent right, or to set aside such a contract because defendant has not complied with its terms, is not within the acts of Congress * * *'".

In the Dale case also, therefore, the decision was merely that a case whose subject matter is *the recovery of royalties* does not arise under the patent law.

The next case cited in the Dick case (p. 60), is *Keeler v. Standard Folding Bed Co.*, 157 U. S., 659, which was referred to (p. 60) as touching "upon the precise question before us."

We have shown above the nature of the point decided in the Keeler case, and that the added remark that a patentee may protect himself through special contract would give rise to a "question of contract, and not under the inherent meaning and effect of the patent laws", was *obiter dictum*, and related to a free article of commerce.

We respectfully submit further concerning the quoted dictum from the Keeler case that it should be interpreted in the light of the decisions above reviewed, and as, therefore, limited in its effect to contract obligations of a licensee or grantee of patent rights, which *are outside the monopoly*, and that *it does not apply to cases involving rights still within the monopoly*.

The next case cited in the Dick case (p. 60) is *Excelsior Wooden Pipe Co. v. Pacific Bridge Co.*, 185 U. S., 282, stated thus:

"The suit was by a licensee authorized to manufacture and sell wooden pipe under certain letters patent, against two defendants, one of whom was the licensor and owner of the patent. The covenants of the license were, (1) to pay a license fee or royalty; (2) not to transfer or assign

the license without the consent of the patentee; and (3) that the license might be revoked for failure to manufacture. While, because of peculiar conditions present in the case, the suit was held to be one arising under the patent laws, the court yet observed (p. 290):

"'Now, it may be freely conceded that, if the licensee had failed to observe any one of the three conditions of the license, the licensor *would have been obliged to resort to the state courts either to recover the royalties*, or *to procure a revocation of the license. Such suit would not involve any question under the patent law.*'"

The next case cited in the Dick case (p. 61) is *Bement v. National Harrow Co.*, 186 U. S., 70, concerning which the following comment is made (Dick case, p. 61):

"In that case the National Harrow Company, the patentee, commenced the action in a state court of New York *to recover damages for the violation of license contracts* pertaining to the manufacture and sale of a patent harrow and also sought *to restrain the future violation* of the contracts and *compel their specific performance.* If in consequence of the subject-matter the case was one arising under the patent laws, *as it would have been if the question of infringement of the patent was involved*, the jurisdiction of the courts of the United States was exclusive. The case was disposed of on its merits in the State courts and came to this court by writ of error upon the question as to whether the agreements between the licensor and licensee violated the Federal anti-trust law, and jurisdiction was entertained and the Federal question was passed upon."

The italicized portion of the foregoing quotation shows that if the question of *infringement of patent* be involved in a suit between a patentee and his licensee or grantee, then the case *is one arising under the patent laws*, as distinguished from one *based entirely upon contract.*

We respectfully submit, that the foregoing examination of the cases cited in the dissenting opinion in the Dick case, shows clearly that the dictum quoted from the Keeler case was never intended to be, and should not be, construed in the case at bar, (as appellant's counsel seek to have this Court construe it), as relating to a case (like the one at bar) in which the patentee claims that *his monopoly rights have been infringed.* That such a claim is made in the case at bar is necessarily to be inferred from the facts and questions which are certified.

But the further fact, that the conditions or reservations upon the patentee's monopoly right to sell a patented article, which he claims his licensee or grantee has *infringed* by over-stepping their limits were expressed *in a contract*, does not, under the foregoing cases, require the conclusion that the suit is one upon contract, and not one under the patent laws.

And this is true because the *nature of the subject matter* of both the contract and suit inherently affects the patent monopoly right to sell.

Since, mere *outside* contract obligations, like the covenant to pay royalties, do not involve *a part of the monopoly rights*, such a contract, even though it relates to a patented article, would have to be enforced in the State courts, in the absence of other grounds of Federal jurisdiction ; *i. e.*, the case would rest entirely upon contract.

So, also, in the case of a patented article which had become *freed from the monopoly*, a contract seeking to impose restraints upon it would rest entirely upon contract and not upon the patent statute.

But *in the case at bar*, as we have endeavored to show, *the patentee did not free the article*, and the *subject matter of the controversy as presented in the facts certified and the questions submitted*, clearly *arises under the patent laws*, because its subject matter is the *monopoly right to sell*, a part of which was reserved.

3. *Application of the Foregoing Legal Conclusions, to the Agreement and Other Facts Certified in the Case At Bar, As Indicating the Appropriate Answers to Questions 2 and 3.*

The Columbia Company being merely the sole marketing agent of the American Company (the patentee), both of said appellees should be treated under Questions 2 and 3, as together constituting the patentee-manufacturer. Each is a West Virginia Corporation.

The facts are simple. The patentee exercises its monopoly rights by *making* and *selling* phonographic records, known as "Columbia" records, which embody patented inventions (Certificate, p. 1).

In marketing such records it employs a system of distribution by which all *dealers* who wish to obtain "Columbia" records *from the patentee*, are required *as a part of the transaction pursuant to which they receive the records, to enter into a written agreement* (directly) *with the patentee* (Cert., p. 4), similar to the one hereinafter set out.

The patentee has such contracts with more than five thousand "dealers", who thus obtain "Columbia" records direct from it (Cert., p. 4).

The "Boston Store" (appellant) is an Illinois Corporation, doing a retail business in Chicago (Cert., p. 1).

On October 15, 1912, in order to obtain "Columbia" patented products from the patentee, for sale in appellant's store, appellant entered into the following agreement with the patentee (italics ours):

"NO JOBBING PRIVILEGES EXTENDED UNDER THIS CONTRACT.

"Notice to Purchasers of

"'Columbia' Graphophones, Grafonolas, Records and Blanks.

"All '*Columbia*' Graphophones, Grafonolas, Records and blanks are *manufactured* by the American

Graphophone Company *under certain patents* and *licensed and sold* through its sole sales agent the Columbia Phonograph Company (General), *subject to conditions and restrictions as to* the persons to whom and *the prices at which they may be resold* by any person into whose hands they come. *Any violation of such conditions or restrictions makes the seller or user liable as an infringer of said patents.*

" After reading the foregoing notice and *in consideration of current dealers' discounts given to me/us* by the Columbia Phonograph Company (General), I/we Hereby Agree *to take any Columbia product* received by me/us *from said company*, either directly or through any intermediary, *under the conditions and restrictions* referred to in said notice and to adhere strictly and be bound by *the official list prices* established from time to time by said Company and that I/*we will neither* give away, *sell*, offer for sale, nor in any way dispose of such goods, either directly or through any intermediary, *at less than such list prices*, nor *induce the sale of such goods by giving away or reducing the price of other goods*, nor sell or otherwise dispose of any of said goods, directly or indirectly, outside of the United States, and I/*we understand that a breach of this agreement will amount to an infringement of said patents* and subject me/us to a *suit* and damages *therefor.* I/we *admit the validity of all patents* under which said *product is manufactured* and hereby *covenant and agree not to question or contest the same in any manner whatsoever.* I/*we* further understand and agree *that this license extends the right to market said Columbia* product *from the below mentioned address only*, and that a *separate contract is required to market said product from a branch store or stores*, or through an agent or agencies *at any other point.*

" I/we acknowledge the receipt of a duplicate of the foregoing notice and contract and that no representations or guarantees have been made by the salesman on behalf of said Company which are not herein expressed.

" I/we also acknowledge receipt of the official list

prices on all Columbia product in force at the date hereof.

" Dated October 15, 1912.
" Witness, F. Austin Coss.
" Signed Boston Store.
" Business Dept. Store.
" Street and No., State and Madison.
" City, Chicago. State, Ill."

A later page of the contract is as follows :

" RETAIL DEALER'S

$500 PURCHASE DISCOUNTS.

Subject to Change.

Purchase Requirements.

" An order for not less than $500 net in one order of Columbia Graphophones, Grafonolas, Records and Supplies for immediate shipment, exclusive of premium machines and previous purchases, and thereafter the purchase of Columbia Graphophones, Grafonolas, Records and Supplies to an amount aggregating not less than $1,000 net, each year, from the date of making above purchase.

" Dealers must keep on hand at all times sufficient stock for exhibition and sales purposes."

Then follows a list of the agreed " Discounts on Machines " of various types and of " Discounts on Records " of various kinds, with a statement of the " terms " applicable to product furnished the dealer under the contract.

Pursuant to above contract, the patentee delivered to the Boston Store a quantity of the patented Columbia Phonograph Records ; the Boston Store paid the full contract price therefor (Cert., p. 3),—*i. e.*, the *net* dealers' price, being (as shown by the contract), the list price less a dealer's discount.

The Boston Store thereupon sold and (at the time of suit)

was selling said records at retail, at prices less than the prices fixed by the restrictive agreements (Cert., p. 4). It was "cutting prices" of the patented articles thus sought to be restricted by the patentee, and the patentee filed suit in the Federal District Court at Chicago.

The District Court entered an injunctive decree (225 Fed. Rep., 785) on the ground that the patent monopoly right of the patentee to *sell* was being violated.

The case at bar, therefore, is this as to Questions 1, 2 and 3:

A patentee invokes the jurisdiction of the Federal Court, to protect his claim that the monopoly *right to sell* granted him by the patent statute, is being infringed as to patented articles then being sold by the dealer who has acquired them directly from the patentee under a contract made by the parties as to whom only it is sought to be enforced.

In obtaining such articles, the dealer had, *at the very instant of the transaction, entered into a written agreement with the patentee, expressing the intent,* that the delivery was *made by the patentee,* and *accepted by his immediate vendee, subject* to *agreed limitations* on the *monopoly right given to the dealer to resell.*

Having thus received the patented articles the dealer proceeds to transgress said restrictions upon his power to sell, by selling at "cut prices."

The *subject matter* of the agreement and of the suit, in relation to Questions 1, 2 and 3, is, therefore, the monopoly right "*to sell.*"

It is not sought to be protected against a purchaser in the open market, who bought the patented articles *after* they had been freed from the patent monopoly,—nor against one who had made an unconditional purchase of the right to sell.

Such being the nature of the suit: What was the essential nature of the actual transaction between the parties; and what *real intent* does it disclose as to *the subject matter* which passed to the Boston Store, in respect of the *corporeal*

property in the physical articles, and in respect of the *incorporeal monopoly right to sell such articles?*

(a) *The corporeal property, the physical records.*

The agreement contains no attempt to reserve any interest in the title to the corporeal thing, the patented article itself, —nor even a right to recall the title in case of violation of the restrictive agreement.

It is clear, therefore, that the corporeal property *passed*, was *sold*, to the Boston Store, but we submit it is equally clear that the corporeal property passed *expressly* "*subject* to conditions and restrictions as to the prices at which" the records "may be sold" (Cert., p. 1). So that,

(b) *The incorporeal property*, the monopoly right to sell the corporeal property embodying the invention, did not pass in its entirety. A part of the right to sell was reserved,—and that part which did pass, was capable of lawful exercise only within the restricted limits. While the corporeal property passed, it passed subject to restrictions upon the incorporeal rights in respect of it.

The following portions of the agreement seem to require the above conclusions:

(1) The first or "notice" paragraph of the agreement (which is as much a part of the agreement as the later paragraphs), states that the articles are "licensed and sold * * * *subject* to conditions and restrictions as to the persons to whom and *the prices at which* they may be resold," etc. (Cert., p. 1).

In the second paragraph, the Boston Store agreed "*to take* any Columbia product *received by us from said Company*, * * * *under the conditions and restrictions* referred to *in said notice*, and *to adhere strictly and be bound by the official* list prices," etc. (Cert., pp. 1 and 2).

Can there be any doubt that above quotations expressed the intent, or that such intent was *real*, and reflected the actual transaction, that the *physical records* which were de-

livered to the Boston Store, passed *subject to* a *restriction upon the right* of the Boston Store to resell them ?

(2) The Columbia records sought to be thus restricted were those " *received by us from said Company,*" (Cert., pp. 1 and 4).

There was no attempt to restrain sales of Columbia records which the Boston Store might buy *in the open market.* Nor to restrain sales by its customers, of those which it had already sold.

(3) The extent and nature of the restraint involved two features, " the *persons to whom* and *the prices at which they* may be resold " (Cert., p. 1).

The former was sought to be made effective by the following: " We further understand and agree that this *license extends the right to market said Columbia product* from the *below mentioned address only,* and that a *separate contract* is *required to market said product* from a branch store or stores * * * at any other point " (Cert., p. 2) ; and not to sell " outside of the United States " (Cert., p. 2).

The " below mentioned address " was State and Madison Street, *Chicago* (Cert., p. 2).

The intent, therefore, was that the licensee or dealer should have the right to resell only to persons who were customers of appellant at the store at that one point.

While such territorial restriction was not violated, *the fact that there was* a territorial restriction on resales adds strength to the showing of an intent *not to free the records from the monopoly.* It was a *real,* not a merely *formal* purpose thus expressed.

The restrictions as to " the prices at which they may be resold," was sought to be made effective by agreements : " to adhere strictly and be bound by the official list prices " ; and inhibited the licensee from selling or disposing of the goods " at less than such list prices " (Cert., pp. 2 and 4).

(4) That the contracting parties themselves understood

and intended the transaction as one in which a part of the *patent monopoly right to sell* constituted an essential part of *the subject matter involved*, also appears plainly :

While a technical use of the words " license ", or " sell," does not prevent the *real* or *substantive* nature of the transaction from being made effective,—it should be noted that in speaking of the patented articles, in the first paragraph of the agreement, *both* words are used : " All ' Columbia ' * * * Records * * * are manufactured * * * under * * * patents and *licensed and sold* ", etc. (Cert., p. 1) ; whereas in imposing the territorial restriction as to *reselling*, the word " license " is used alone : " We * * * agree that *this license* extends the *right to market* said Columbia product ", etc. (Cert., p. 2), thus indicating that the *right to resell* was in the minds of the parties *as a distinct subject matter* in respect of which the *patented articles* delivered to the Boston Store were *intended to be restricted.*

An additional, and perhaps stronger evidence of the same intent, appears from the provision (twice expressed) that a violation of the restriction " will *amount to an infringement of said patents* " (Cert., pp. 1 and 2).

Those provisions are inconsistent with the existence of an intent that the patented articles when received by the Boston Stores should *stand released* from the monopoly control.

We regard it as immaterial whether the agreement as a whole be called one " of sale ", or " of license."

All the facts certified show that the expressed intent which we have endeavored (above) to point out, was the *real* intent of the parties and of the transaction. As applied to the Boston Store, there was a conditional or restricted " sale " of the patented articles. The title to the corporeal property (the physical records) was conditionally sold, and it passed to the Boston Store, *subject, however*, to the expressed restriction upon the purchaser's right to exercise (in respect of said records), the patent monopoly (incorporeal) right to sell them.

We respectfully submit, that unless the *Bement* decision, which has been a rule of property ever since 1912, is to be overruled, and unless the intimations made by this Court in the other cases (above cited) are to be entirely disregarded, it *was* within the lawful monopoly right of the patentee in the case at bar, to thus treat separately and distinguish between its corporeal property in the records themselves, and its incorporeal property in the patent monopoly rights in respect of the records themselves;—and to thus subdivide or deal conditionally with, the monopoly right to sell.

The right "to sell" thus attempted to be restricted was clearly within the scope of the statutory grant, as we have already pointed out.

The sale of the patented article itself, was not such an "unconditional" sale as to permit an *implied intent* to *free* the article.

Both the form and the substance of the transaction expressly exclude such an implication.

The patented records, at the moment they were dealt with between the patentee and the Boston Store, *had not become freed* from the patent monopoly. They rested in the ownership and possession of the patentee-manufacturer, who stood ready to exercise, in whole or in part, in respect of them, his monopoly right "to sell."

He was not willing to sell at all, to a dealer who sought to buy for the purpose of resale, unless the dealer would take title to the patented articles *subject* to a limited right to exercise the monopoly right to resell them.

The dealer *did take* subject to such restriction.

All that he *bargained for* was a purchase thus restricted.

What he *paid for* was a purchase thus restricted. And it should be held that what he *received* was a purchase thus restricted.

In the case at bar there is no effort, as this Court held

there was in the Bobbs-Merrill, Bauer, Victor and Motion Picture cases, to *extend* the patent statute beyond the scope of the patent rights.

Nor is there an effort to invoke the protection of the patent law for an article which had *previously* been *freed* from the patent monopoly; nor as against one who bought an article (free as to him) in the open market.

There is here no *gap* between the patentee and the person sought to be restrained from infringement.

Privity of contract exists. The statutory cable which may be said to represent the patentee's monopoly right to sell has not been *severed*. He still holds it. He has not severed it by unconditionally exercising his *right to sell*.

He has merely *subdivided* (or conditionally exercised) it in respect of these patented records, by agreeing with the Boston Store, that if the latter resells the records *within* the *agreed restrictions*, then *the statutory cable will thereby become* severed. Such a severance would be a rightful, a permitted, or "licensed" severance.

But unless the Boston Store exercise the right to sell in the said permitted or licensed manner, the patentee's hold upon his cable still continues as against the purchaser into whose hands he had thus agreed to partially place it for restricted exercise, and in respect of the records thus obtained *from the patentee* and *still in the possession of the Boston Store*. What the effect of a wrongful (unlicensed) breaking of the cable, by the Boston Store selling records in violation of the restriction, would be upon the persons to whom the Boston Store thus sold, we do not feel at liberty to discuss because that question is not presented in the case at bar.

To a large extent, that question was decided in the Bobbs-Merrill and Bauer cases.

As between the patentee and the Boston Store, however, we respectfully submit that the patentee has not condition-

ally released his hold upon the monopoly right to sell, so far as the records still held by the Boston Store are concerned.

And the questions certified, include the question whether such restrictive conditions can be enforced against the contracting dealer, in respect of records, received by him from the patentee subject to such condition.

We respectfully submit that they can be enforced.

Having endeavored to show (above): that the point decided in the Bement case, viz.: that a patentee may by direct agreement with his immediate grantee, made at the very instant of the transaction, lawfully impose restrictions upon the prices at which the latter may sell, has never been overruled or modified; that such restrictive agreements constitute a valid exercise by the patentee of a part of his monopoly right and do not rest solely upon contract; that a sale by the patentee of the patented article even though its value be in its use, does not necessarily (in every case), operate to also pass the monopoly rights to use or sell; that the presumption, that the monopoly rights to use and sell pass with the title to the physical article, applies only to *unconditional* sales, and does not apply when a contrary intent is expressed and exists in the essence (rather than in the mere form) of the transaction; that the kind of consideration (whether gross or partial) received by the patentee when he delivers the patented article and makes the restrictive agreement, is not conclusive upon the above question of intent, but is mere evidence to be considered with the other *indicia* of intent; that in each case the intent as disclosed by the essential nature of the transaction should be the test by which each transaction is judged; and when the essential nature of the transaction does disclose an intent that the patentee reserve a part of his monopoly right to sell, then a patentee *may* " in connection with the act of delivering his patented article to another for a gross consideration then received, lawfully reserve by contract a part of his monopoly right to sell "; and

that the transaction in the case at bar constituted a valid conditional or restricted sale,—we respectfully submit, that *Questions 2 and 3, should each be answered affirmatively.*

III. (QUESTION 4).

4. "If jurisdiction attaches solely by reason of diversity of citizenship, do the recited facts constitute a cause of action?"

We respectfully contend that they do, and that the above Question (No. 4) should be answered in the affirmative.

This Question involves no consideration of the patent laws, but requires an examination of the facts certified in this case, and a determination of the legal rights deducible therefrom, without recourse to such special rights and remedies as may be afforded by the patent laws.

The distinction between the *right to exercise the patent monopoly*, which is an incorporeal property right, and the *title to the physical article*, which is corporeal property, and the distinction between a *limitation upon the grant of a right under the patent monopoly*, violation of which is a *trespass* and a *tort*, for which the remedy is a *suit for patent infringement*, and a *contract* between the vendor and his immediate *vendee* restricting such immediate *vendee*, but not any sub-vendee, in his resale of the *physical article*, violation of which right is a *breach of contract*, for which the remedy is an *action for breach of contract*, have both been fully explained under the preceding Point of this brief.

Both rights have there been shown to co-exist frequently in the same case, neither right conflicting in any way with the other, nor detracting from the other, and each right affording its proper remedy independently of, and in addition to, the remedy afforded by the other.

The preceding Points of this brief have all been addressed

to limitations upon the grant of a right under the patent monopoly, violation of which is a trespass and a tort, for which the remedy is a suit for patent infringement. The present Point, however, will deal wholly with the agreement on the present case between the vendor and its immediate vendee restricting such immediate vendee, but not any sub-vendee, in his resale of the physical article, violation of which is a breach of contract, for which the remedy is an action for breach of contract.

Having in mind, always, this distinction between the incorporeal and narrowly-defined monopoly afforded by a patent, and the corporeal physical article embodying the invention covered by the patent, the fact that an article may embody an invention covered by a patent will never be taken as evidence that the article itself is in any sense a commercial or economic monopoly.

That a patent necessarily creates a commercial and economic monopoly is a logical fallacy that cannot survive the analysis of the law of patents set forth in the preceding Points of this brief. Monopoly in the commercial and economic sense, which is the only kind of monopoly about which public policy and the Sherman Act are concerned, exists only when there is, in some substantial and undue degree, lack of competition in some particular line of commerce. Hundreds of articles embodying inventions covered by patent are subject to the keenest competition from rival articles in the same line of commerce. That these articles, competing on all fours in every market they enter with hundreds of rival articles in the same line of commerce, are monopolies in the sense intended by public policy and the Sherman Act, contradicts not only the whole theory of the patent law but also the plainest facts of general knowledge and human experience.

Sound producing machines and products constitute a class of commodities, of which the specially patented products of the complainant are but a species. Between the varying

species of this general class there is widespread and acute competition. The complainant's patent monopoly only consists in a special form of its own sound producing machines and products, and it is a matter of common knowledge that these products compete with other kinds of phonographs and phonographic records manufactured under other processes, and in some cases other patents.

The facts certified in this case show "an agreement in writing" between the Boston Store and the Columbia Company "acting as agent of the American Company." They show diversity of citizenship between the parties in this case. They show that "the amount in controversy, exclusive of interest and costs, largely exceeds the sum of three thousand dollars." Unless, therefore, they further show that this agreement, alone or in connection with other facts certified in this case, contravenes public policy or some statute, then the recited facts *do* "constitute a cause of action," and this Question should be answered in the affirmative.

The Boston Store contends that this agreement in connection with the other facts certified in this case contravened public policy and the Sherman Act, in that it restricted the price at which the Boston Store could resell Columbia products, which the American Company, acting through its agent, the Columbia Company, delivered to the Boston Store pursuant to and in reliance upon this agreement; and that, therefore, this agreement is unenforceable, and that this Question (No. 4) should be answered in the negative.

Public policy and the Sherman Act, in their application to arrangements differing from the agreement and the other facts certified in this case, have several times been discussed by this Court and by other Federal courts.

The Sherman Act, in its application to contracts and combinations in general, has many times been expounded by this Court.

Consideration, therefore, of the pertinent legal conclusions

applicable to the agreement and other facts certified in this case can best be approached by considering:

(1) The general rule for which the Sherman Act stands.

(2) In the light of the general rule for which the Sherman Act stands, what is the particular rule for which the Sherman Act stands in respect of arrangements in the nature of so-called resale price maintenance presented in some of the cases heretofore decided by this Court and by other Federal courts?

(3) Does public policy, independently of the Sherman Act, suggest any other rule applicable to the agreement and other facts certified in this case?

(4) Application of the pertinent legal conclusions to the agreement and other facts certified in the case at bar, as indicating the appropriate answer to Question 4.

1. The General Rule for which the Sherman Act stands.

No agreement violates the Sherman Act unless, in the light of reason upon all the facts and circumstances of the particular case, it constitutes such an undue restriction of competition in some line of commerce as to monopolize or (unduly) restrain trade.

In *Standard Oil Co. v. United States*, 221 U. S., 1, this Court said:

> "Without going into detail and but very briefly surveying the whole field, it may be with accuracy said that the dread of enhancement of prices and of other wrongs which it was thought would flow from the *undue limitation on competitive conditions* caused by contracts or other acts on individuals or corporations, led, as a matter of public policy, to the prohibition or treating as illegal all contracts or acts which were *unreasonably restrictive of competitive conditions*, either from the nature or character of the contract or act or where *the surrounding circumstances* were such as to justify the conclusion that they had not been entered into or performed with the legitimate purpose of reasonably forwarding personal interest and developing trade

(p. 58) * * *. The statute under this view evidenced the intent not to restrain the right to make and enforce contracts, whether resulting from combination or otherwise, which did not *unduly restrain* interstate or foreign commerce, but to protect that commerce from being restrained by methods, whether old or new, which would constitute an interference that is an *undue restraint* (p. 60) * * * although the statute by the comprehensiveness of the enumerations embodied in both the first and second sections makes it certain that its purpose was to prevent *undue restraints* of every kind or nature, nevertheless by the omission of any direct prohibition against monopoly in the concrete it indicates a consciousness that the freedom of the individual right to contract when not *unduly or improperly exercised* was the most efficient means for the prevention of monopoly, since the operation of the centrifugal and centripetal forces resulting from the right to freely contract was the means by which monopoly would be inevitably prevented if no extraneous or sovereign power imposed it and no right to make unlawful contracts having a monopolistic tendency were permitted. In other words, that freedom to contract was the essence of freedom from *undue restraint* on the right to contract " (p. 62).

In *United States v. American Tobacco Co.*, 221 U. S., 106, this Court said:

" Applying the *rule of reason* to the construction of the statute, it was held in the *Standard Oil Case* that as the words ' restraint of trade ' at common law and in the law of this country at the time of the adoption of the Anti-Trust Act only embraced acts or contracts or agreements or combinations which operated to the *prejudice of the public interests by unduly restricting competition or unduly obstructing* the due course of trade or which, either because of their inherent nature or effect or because of the evident purpose of the acts, etc., *injuriously restrained* trade, that the words as used in the statute were designed to have and did have but a like significance. It was therefore pointed out that

the statute did not forbid or restrain the power to make *normal and usual contracts* to further trade by resorting to all *normal methods*, whether by agreement or otherwise, to accomplish such purpose" (p. 179).

In *Continental Wall Paper Company v. Voight & Sons Co.*, 212 U. S., 227, this Court said:

> "The adjudged cases all hold that upon the question whether the particular contract sought to be enforced arises out of an illegal transaction, the court will not be restricted to a partial statement of the facts, but will consider *all the circumstances connected with the transaction* so as to ascertain its real nature. In *Addyston Pipe & Steel Co. v. United States*, 175 U. S., 211, 247, the court said that '*all the facts and circumstances are, however, to be considered* in order to determine the fundamental question whether the necessary effect of the combination is to restrain interstate commerce" (p. 266).

In *United States v. Union Pacific R. R. Co.*, 226 U. S., 61, this Court said:

> "In the recent discussion of the history and meaning of the act in the *Standard Oil* and *Tobacco Cases* this court declared that the statute should be given a *reasonable construction*, with a view to reaching those *undue restraints* of interstate trade which are intended to be prohibited and punished, and in those cases it is clearly stated that the decisions in the former cases had been made upon an application of that rule and there was no suggestion that they had not been correctly decided. In the *Tobacco Case*, after referring to the previous decision in the *Standard Oil Case* and the decisions in the *Trans-Missouri* and *Joint Traffic Cases*, the doctrine was tersely summarized by the Chief Justice, speaking for the court, as follows (page 179):" (p. 84) (here follows the extract above quoted from the *Tobacco Case*).

In *United States v. Reading Co.*, 226 U. S., 324, this Court said (p. 370):

> "That the act of Congress 'does not forbid or restrain the power to make *normal and usual contracts* to further trade by resorting to all *normal methods*, whether by agreement or otherwise, to accomplish such purpose,' was pointed out in the *Standard Oil Case*, 221 U. S., 1. In that case it was also said that 'the words "restraint of trade," should be given a meaning which would not destroy the individual right of contract, and render difficult, if not impossible, any movement of trade in the character of interstate commerce, the free movement of which it was the purpose of the statute to protect.' We reaffirm this view of the plain meaning of the statute, and in so doing limit ourselves to the inquiry as to whether this plan or system of contracts entered into according to a concerted scheme does not operate to *unduly suppress competition* and restrain freedom of commerce among the States (p. 369) * * *. Whether a particular act, contract or agreement was a *reasonable and normal method* in furtherance of trade and commerce may, in doubtful cases, turn upon the intent to be inferred from the *extent of the control* thereby secured over the commerce affected, as well as by the method which was used * * * In the instant case the extent of the control over the limited supply of anthracite coal by means of the great proportion theretofore owned or controlled by the defendant companies, and the extent of the control acquired over the independent output which constituted the only competing supply, affords evidence of an intent to suppress that competition and of a purpose to *unduly restrain* the freedom of production, transportation and sale of the article at tidewater markets."

In *Nash v. United States*, 229 U. S., 373, this Court said (p. 376):

> "Those cases may be taken to have established that only such contracts and combinations are within

> the act as, by reason of intent or the inherent nature of the contemplated acts, *prejudice the public interests by unduly restricting competition or unduly obstructing the course of trade*, 221 U. S., 179."

In *Eastern States Retail Lumber Dealers' Association v. United States*, 234 U. S., 600, this Court, after citing the passages above quoted from the *Standard Oil*, *Tobacco* and *Nash* cases above quoted, said (p. 613):

> "Congress, with the right to control the field of interstate commerce, has so legislated as to prevent resort to practices which *unduly restrain competition* or *unduly obstruct* the free flow of such commerce, and private choice of means must yield to the national authority thus exerted. *Addyston Pipe Co. v. United States*, 175 U. S., 211, 241, 242."

Other Federal courts, in language so apt as to deserve quotation, have followed the rule of the decisions of this Court above quoted, and have held that no agreements violate the Sherman Act unless, in the light of reason upon all the facts and circumstances of the particular case, such agreements constitute such an undue restriction of competition in some line of commerce as to monopolize or (unduly) restrain trade.

In *United States v. E. I. DuPont deNemours & Co.*, 188 Fed. Rep., 127, the Court said (pp. 150–151):

> "There is a distinction between *restraint of competition and restraint of trade.* The latter expression had, when the anti-trust act was passed, a definite legal signification. *Not every combination in restraint of competition was, in a legal sense, in restraint of trade.* * * * But it does not necessarily follow that such restraint of competition is a restraint of interstate trade and commerce. The determination of whether it be so must depend upon *the facts and circumstances of each individual case.*"

In *United States v. Hamburgh American S. S. Line*, 216 Fed. Rep., 971, the Court said (pp. 972–973) :

> " There have been two exhaustive opinions of the Supreme Court dealing with this act. Standard Oil Co. v. United States, 221 U. S., 1, 31 Sup. Ct., 502, 55 L. Ed., 619, 34 L. R. A. (N. S.), 834, Ann. Cas., 1912, D. 734; United States v. American Tobacco Co., 221 U. S., 106, 31 Sup. Ct., 632, 55 L. Ed., 663. The effect of these would seem to be that contracts and methods of business, which do in fact restrain or interfere with competition, are not to be held obnoxious to the provisions of the act, unless such restraint or interference is ' *unreasonable* ' or ' *undue* '. * * * To determine whether any particular course of conduct is or is not ' *undue* ' or ' *unreasonable* ' involves, of course, a consideration of *all the surrounding circumstances*, which may be multifarious " (appeal dismissed without discussion of reasoning above quoted, 239 U. S., 466).

The distinction between an article that is *sui generis* and has no competitors and commercially is the only article in its class, and an article that is not *sui generis*, but has competitors, and commercially is only one of many articles in its class, and is distinguishable from competing articles in the same line of commerce only by some brand, or tradename, or other characteristic feature, around which the manufacturer has rallied popularity, good will, demand, and a veritable market, through his own legitimate effort and expenditure in sales promotion and advertising, may well be one of the " competitive conditions," one of " the surrounding circumstances," which the court must heed and weigh under the rule of the decisions above quoted, particularly the rule of this Court in Continental Wall Paper Co. v. Voight & Sons Co., 212 U. S., 227, above quoted, that " the court will not be restricted to a partial statement of the facts, but will consider all the circumstances connected with the transaction so as to ascertain its real

nature * * * all the facts and circumstances are, however, to be considered in order to determine the fundamental question whether the necessary effect of the combination is to restrain interstate commerce". This, certainly, is the view of several other Federal courts.

See, also, *Great Atlantic & Pacific Tea Co. v. Cream of Wheat Co.*, 224 Fed., 566, and *United States v. Quaker Oats Co.*, 232 Fed., 499, quoted under the succeeding subdivision of this Point.

2. *In the Light of the General Rule for which the Sherman Act stands, What is the Particular Rule for which the Sherman Act stands In Respect Of Arrangements in the Nature of So-called Resale Price Maintenance Presented in Some of the Cases Heretofore Decided by this Court and by other Federal Courts?*

No agreement in the nature of so-called resale price maintenance, it is submitted, violates the Sherman Act unless, *in the light of reason upon all the facts and circumstances of the particular case*, it constitutes such an *undue restriction of competition* in some line of commerce as to monopolize or (unduly) restrain trade.

If this be not sound doctrine, then agreements between manufacturers and their dealers in the nature of so-called resale price maintenance constitute the single, unique and anomalous exception to the universality of the rule stated in the preceding subdivision of this Point; and the "light of reason" set up by the Supreme Court in the Standard Oil and American Tobacco cases, which illumines and determines the legality, under the anti-trust laws, of every other human relation, has no application to agreements between manufacturers and their dealers in the nature of so-called price maintenance.

No such exception, it is submitted, really exists. Notwithstanding the broad language in some of the cases, no

decision of this Court, on either its facts or its law, stands as authority for any such exception.

In *Dr. Miles Medical Company v. John D. Park & Sons Company*, 220 U. S., 373, the Dr. Miles Company controlled the entire output of the so-called Dr. Miles medicines embodying a "secret process." By an interlocking system of contracts, the Dr. Miles Company took an agreement from each of its wholesalers not to sell at less than a specified price, nor to sell to anyone except retailers who were under contract with the Dr. Miles Company; and from every such retailer, the Dr. Miles Company took an agreement not to sell at less than a specified price, nor to sell at any price to any wholesaler or retailer except such as were under contract with the Dr. Miles Company. No such system of contracts, be it noted, is disclosed in the agreement and other facts certified in the present case. The Dr. Miles Company had "retained its secret which apparently it believes to be undiscoverable" (p. 402). By the Dr. Miles Company's own statement, "no one else can manufacture the article," and the Dr. Miles Company had a "monopoly of production." Instead of controlling merely one brand of a general commodity of commerce, the Dr. Miles Company, by its own admission, controlled a product that was *sui generis*, and had no competitors, and commercially was a "monopoly." That was the theory on which the Dr. Miles Company presented its case to the Court. "Trade secrets and articles embodying them are property monopolies," its counsel argued, and "contracts relating thereto are not within the restraint of trade rule." * * * The methods of manufacture and the articles made under trade secrets, when the article, as here, is itself a secret article with its ingredients and their proportions unknown and undisclosed by the article as sold and inspection thereof, are both property and legal monopolies. Until either voluntary disclosure to, or lawful discovery by, the public of the secret or process they are and continue to be protected as monopolies" (p. 387,

388). None of these monopolistic features, be it noted. are disclosed in the facts certified in the present case. The Dr. Miles Company sued the Park Company, which was not party to any contract with the Dr. Miles Company, and sought to enjoin the Park Company from procuring Dr. Miles' medicines from any dealer who had executed one of these contracts with the Dr. Miles Company, and from selling or advertising Dr. Miles' medicines at less than the prices prescribed in these contracts. Since it plainly appeared, however, that the Dr. Miles Company's system of contracts totally restricted competition in the resale of a product which, upon the Dr. Miles Company's own admission, was *sui generis*, and had no competitors, and commercially was a "monopoly," there was obviously no escape from the conclusion that there had been such an undue, in fact an absolutely total, restriction of competition in an entire line of commerce as necessarily to monopolize and unduly restrain trade. Accordingly, the Court affirmed the dismissal of the suit.

Those determining factors in the Dr. Miles case are wholly absent in the present case : the monopolistic features of the Dr. Miles medicines, to which this Court referred in the passages above quoted ; and the Dr. Miles Company's system of contracts, by which was controlled both the resale price of the manufacturer's vendee and also the resale price of the subvendee of the manufacturer's vendee ; and the absence of any contractual relation between Dr. Miles Company and Park Company.

The absence from the present case of these determining factors of the Dr. Miles case would alone suffice to prevent the Dr. Miles case from controlling the present case. Some of the reasoning in the Dr. Miles case, however, foreshadows so plainly the rule laid down by this Court five years later in the Standard Oil and Tobacco cases above quoted, and indicates so clearly that under a state of facts different from that of the Dr. Miles case an agreement in the nature of so-called

resale price maintenance may be enforceable that it deserves quotation (pp. 406–407):

> " With respect to contracts in restraint of trade, the earlier doctrine of the common law has been substantially modified in adaptation to modern conditions. But the *public interest is still the first consideration.* To sustain the restraint, it must be found to be *reasonable both with respect to the public and to the parties and that it is limited to what is fairly necessary, in the circumstances of the particular case, for the protection of the covenantee.* Otherwise, restraints of trade are void as against public policy. As was said by this court in Gibbs v. Baltimore Gas Co., 130 U. S., p. 409. 'The decision in *Mitchel v. Reynolds*, 1 P. Wms., 181; S. C., Smith's Leading Cases, 407, 7th Eng. ed.; 8th Am. ed., 756, is the foundation of the rule in relation to the invalidity of contracts in restraint of trade; but as it was made under a condition of things, and a state of society, different from those which now prevail, the rule laid down is not regarded as inflexible, and has been considerably modified. *Public welfare is first considered, and if it be not involved, and the restraint upon one party is not greater than protection to the other party requires, the contract may be sustained. The question is, whether, under the particular circumstances of the case and the nature of the particular contract involved in it, the contract is, or is not, unreasonable. Rousillon v. Rousillon*, 14 Ch. D., 351; *Leather Cloth Co. v. Lorson*, L. R., 9 Eq., 345.'
>
> " 'The true view at the present time,' said Lord MACNAGHTEN in *Nordenfelt v. Maxim-Nordenfelt, &c., Co.*, 1904, A. C., p. 565, 'I think, is this: The public have an interest in every person's carrying on his trade freely: so has the individual. All interference with individual liberty of action in trading, and all restraints of trade of themselves, if there is nothing more, are contrary to public policy, and therefore void. That is the general rule. But there are exceptions: restraints of trade and interference with individual liberty of action may be justified by the *special circumstances*

of a particular case. It is a sufficient justification, and indeed it is the only justification, if the restriction is *reasonable,—reasonable, that is, in reference to the interests of the parties concerned, and reasonable in reference to the interests of the public,* so framed and so guarded as to afford adequate protection to the party in whose favor it is imposed, while at the same time it is in no way injurious to the public.'

"The present case is not analogous to that of a *sale of good will,* or of an *interest in a business,* or of the grant of a right to use a process of manufacture. The complainant has not parted with any *interest in its business* or instrumentalities of production. It has confered no *right by virtue of which purchasers of its products may compete with it.* It retains complete control over the business in which it is engaged, manufacturing what it pleases and fixing such prices for its own sales as it may desire."

Can this Court assume that the agreement in the present case necessarily offends against "public interest"? or that it is necessarily *not* "reasonable both with respect to the public and to the parties and * * * limited to what is fairly necessary, in the circumstances of the particular case, for the protection of the covenantee"? Conceding what this Court elsewhere said in the Dr. Miles case that "advantages which the participants expect to derive from the enhanced price to the consumer" (p. 408) are not "sufficient justification" for such an agreement: May it not be possible "under the particular circumstances of the case and the nature of the particular contract involved in it * * * (that) * * * interferference with individual liberty of action may be justified by the special circumstances of a particular case"? Indeed, has not this Court in the very paragraph of its decision last above quoted, indicated clearly a state of facts that may afford "sufficient justification" for an agreement in the nature of so-called resale price maintenance?

Take an article that is not *sui generis*, but has competitors, and commercially is one of many articles of its class, and is distinguishable from competing articles in the same line of commerce only by some brand, or trade name, or other characteristic feature, around which the manufacturer has rallied popularity, good will, demand, and a veritable market, through his own legitimate efforts and expenditure in sales promotion and advertising: Such an article, apparently, is Cream of Wheat, as described in *Great Atlantic & Pacific Tea Co. v. Cream of Wheat Company*, 224 Fed. Rep., 566, and Quaker Oats and Mother's Oats, as described in *United States v. Quaker Oats Company*, 232 Fed. Rep., 499, and Iola cement as described in *Phillips v. Iola Portland Cement Company*, 125 Fed. Rep., 593, and the Ford motor car as described in *Ford Motor Company v. Benjamin E. Boone, Inc.*, as described in 244 Fed. Rep., 335, and Grogan's olive oil as described in *Grogan v. Chaffee*, 156 Cal., 611, and Ghiradelli's ground chocolate, as described in *Ghiradelli v. Hunsicker*, 164 Cal., 355, and Fisher's flour, as described in *Fisher Flouring Mills v. Swanson*, 726 Wash., 649.

The first characteristic of all these articles is that each is subject to keen competition from rival articles in the same line of commerce.

> "The result is Cream of Wheat, which is no more than purified middlings. It is not patented, any one can make it who can get middlings, and the amount of that material annually required by the business of defendant is less than 1 per cent. of the amount thereof produced in the same period by the millers of the United States. Obviously defendant does not and cannot control, nor indeed does it seek to control or monopolize, the production of, or market for, middlings."
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> Great Atlantic & Pacific Tea Company v. Cream of Wheat Company, 224 Fed. Rep., 566, 568.

> "* * * while the Quaker Oats Company and the Great Western were the two largest factors in the busi-

ness, there were numerous competitors, and there was the fullest possibility of the most extended competition, and the size and the power of neither of these companies, either single or combined, that is, the power of the Quaker Oats, after securing the Mother's Oats, were not such as could prevent the most unlimited competition in package rolled oats."

United States v. Quaker Oats Company, 232 Fed. Rep., 499, 502.

"The Iola Cement Company had no monopoly of the manufacture or sale of cement in the United States. It was surrounded by competing manufacturers, and the contract which it made with Parr & Co., of Galveston, had no direct or substantial effect upon competition in trade among the states. It left the manufacturers who were competing with the plaintiff for the trade of the country free to select their customers, to fix their prices, and to dictate their terms for the sales of the commodities they offered, so that in this regard no restraint whatever was imposed."

Phillips v. Iola Portland Cement Company, 125 Fed. Rep., 593, 595.

"It is to be borne in mind that the plaintiff has no monopoly of the automobile business, but only of one out of almost innumerable kinds of cars, all differing in detail one from the other, but of the same general type, and all designed to be used in the same general manner, and for the same general purpose. If, as was admitted to be the fact in the Motion Picture Patents Company Case, the plaintiff's car were wholly indispensable to the carrying on of a great industry, and if its plan of marketing were such as to constitute an instrument of oppression or favoritism, then the courts should perhaps be astute to discover means by which to disorganize its system and to encourage competitive effort as between the salesman or distributors of its product; but such is not the case. Whatever its merits, the Ford car is not, except in the most remotely relative sense,

essential to the well-being of the public or any group thereof, or any individual. There are other automobiles in great variety available to any one who has need and desires to purchase, some cheaper, some more expensive, some less efficient, some more efficient, some less attractive in appearance, others more attractive."

Ford Motor Company v. Benjamin E. Boone, Inc., 244 Fed. Rep., 335, 341.

"*Grogan v. Chaffee*, 156 Cal., 611 (27 L. R. A. (N. S.), 395, 105 Pac., 745), did not involve a contract affecting the whole or even any large proportion of the supply of olive oil available in the market. This feature was expressly recognized by the court in discussing the question of attempted monopoly and unreasonable restraint of trade. It was said: 'The contract here relied on does not relate to any olive oil except that manufactured by plaintiff. There is no suggestion that this comprises all, or any large portion, of the olive oil manufactured or sold in the market supplied by plaintiff. While plaintiff alleges that he manufactures oil by a process of his own discovery, there is nothing exclusive in the product resulting from this process. All that he claims for his oil is that it is pure and wholesome. The court must assume, as a matter of common knowledge, that others may and do manufacture pure olive oil in considerable quantities.' The same is substantially true of plaintiff's ground chocolate. That it comes anywhere near controlling the market in ground chocolate is not suggested, and as a matter of common knowledge we do know that others may and do manufacture and sell such chocolate in considerable quantities. Plaintiff simply claims to be producing a superior quality of ground chocolate. This feature, common to this case and that of *Grogan v. Chaffee*, which was taken by the Federal courts to be absent from the cases decided by them which we have referred to, is a most material matter in the determination of the question whether such restraint of trade as results from the contract, is such as to render the contract void as imposing an unreasonable restraint."

Ghirardelli v. Hunsicker, 164 Cal., 355, 360–361.

"* * * that the flour is sold in all of its markets in constant and keen competition with many other brands of patent flour of all qualities, and that the quantity of plaintiff's flour so sold is only a very small part of the pure blended flour and of the quantity of ordinary patent flour sold in each of such markets. * * *

"Fixing the price on all brands of high grade flour is a very different thing from fixing the price on one brand of high grade flour. The one means destruction of all competition and of all incentive to increased excellence. The other means heightened competition and intensified incentive to increased excellence."

Fisher Flouring Mills Company v. Swanson, 76 Wash., 649, 650, 659.

The second characteristic of these articles is that each has a distinctive popularity, good will, demand and market created for it through the manufacturer's own legitimate effort and expenditure in sales promotion and advertising.

"The style and dress, name, and package of defendant have been extensively and successfully advertised for 18 years, until the public has grown accustomed to ask for and get something good to eat under the name 'Cream of Wheat'; and an identical substance under another name would have to travel the same long, hazardous, and expensive path in order to get or create a market. It is possible to assert that the (say) 1 per cent. of middlings, which, when selected, and purified, is called Cream of Wheat, is for legal purposes, at all events, a different commodity, a separate thing or entity, from all other middlings. The point is mere dialectic, for all that makes the difference or separates the things is a name, and the substantial truth remains that defendant's business consists in lawfully monopolizing a trade-name, and impressing the public with the purity, reliability and uniformity of the very common substance it sells under that cleverly chosen name. The selection of the name was quite as important as the selection of the middlings, when business began, and, after so much

advertising, the name or brand is by long odds the most important element in the business."

Great Atlantic & Pacific Tea Company v. Cream of Wheat Company, 224 Fed. Rep., 566, 568; see also other extracts from this case quoted above under this subdivision of this Point.

"The strength of both of these companies was due to the tremendous advertising of their brands. By virtue of that advertising the public had come to demand, not merely rolled oats, not package rolled oats, but Quaker rolled oats, or Mother's rolled oats, and yet the instrumentalities of satisfying the demands of the public, the wholesale business throughout the country, the retail business throughout the country, was all in most strenuous opposition to and competition with these two companies. The very elements that they necessarily utilized in the distribution of their product were their own chief competitors."

United States v. Quaker Oats Company, 232 Fed. Rep., 499, 502; see also other extracts from this case quoted above under this subdivision of this Point.

"* * * that the plaintiff had widely, and at great expense, advertised this flour as a blended flour, pure, wholesome and of unusual excellence, and has used certain copyrighted designs and the above trade name to acquaint the public with the flour, so that it has become widely known as of unusual excellence and as of higher price than ordinary patent flour, and that large quantities of it are sold in Seattle and King county."

Fisher Flouring Mills Company v. Swanson, 76 Wash., 650; see also other extracts from this case quoted above under this subdivision of this Point.

That this popularity, good will, demand and market have been created by the manufacturer and not the dealer; that it is created by the manufacturer immediately with the con-

sumer by sales promotion and advertising from the manufacturer directly to the consumer, and not by or through the dealer; that in consequence the consumer when he purchases this sort of article holds the manufacturer, rather than the dealer, responsible, and regards the manufacturer, rather than the dealer, as the real principal, even though it is the dealer who actually passes the title, is an economic and commercial fact consequent upon the characteristic popularity, good will, demand and market thus created for this sort of article.

> "The purchase of an automobile is not like the purchase of a sack of potatoes. An automobile is a complex mechanism, designed to be used for an indefinite length of time. Parts wear out and must be replaced. The ordinary purchaser realizes that he is incompetent to judge whether in all respects an offered car is up to the manufacturer's advertised standard. It is a consideration of some importance to him to be able to deal with the maker or its recognized agent. He desires the assurance that the article he purchases is standard; that it has the maker's guaranty; that he will be able to procure parts and accessories as he may need them; and, of course, that no question will be raised touching his title."
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> *Ford Motor Company v. Benjamin E. Boone, Inc.*, 244 Fed. Rep., 335, 338; see also other extracts from this case quoted above under this subdivision of this Point.

This popularity, good will, demand and market, with which this class of articles is vested by the manufacturer, results in the fact that when the manufacturer has placed these articles on his dealers' shelves, he has given his dealers something besides the mere physical goods. Wrapped up in them is some of the manufacturer's *good will*, and a very substantial *interest in his business*. By entrusting these articles to his dealers, the manufacturer, in a very real sense, has parted with *an interest in his business;* for he has given

his dealers some of his *good will* and an *interest in his business*, and the power of choice now lies wholly with the dealers whether to use this *good will* and *interest in the manufacturer's business* for the purpose for which the manufacturer created it, or to use it to destroy the rest of the manufacturer's *good will* and *business*. When the manufacturer, therefore, has placed these articles on his dealers' shelves, he has conferred a right by which, so far as concerns the manufacturer's distribution to all other dealers, "price cutting" dealers may *compete with the manufacturer*.

> "The only competition prevented or sought to be prevented by defendant's acts is that of Cream of Wheat against itself; the only trade restrained is the commercial warfare of a large buyer against small ones, or that of a merchant who for advertising purposes may sell an article at a loss, in order to get customers at his shop, and then persuade them to buy other things at a compensating profit. That competition, as encouraged by statutes and decisions, does not include such practices, has been sufficiently shown (with ample citations) in Fisher Flouring Mills Co. v. Swanson, 76 Wash., 649, 137 Pac., 144, 51 L. R. A. (N. S.) 522. * * *
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> "Cream of Wheat is not a necessity; it is not even a staple article of commerce. If it be a commodity at all, the commodity and the name are synonymous. Its continued existence depends upon defendant's ability to control the marketing of its own product. The doing of what plaintiff wishes would take from every groceryman near an 'Economy Store' the last incentive to buy any Cream of Wheat, and collectively such grocery keepers are more important to the public and the defendant than is the plaintiff. If injunction were granted, defendant and many retailers would be injured, and the microscopic benefit to a small portion of the public would last only until plaintiff was relieved from the competition of the 14 cent grocers, when it, too, would charge what the business would normally

and naturally bear. In short, it is plaintiff, and not defendant, that pursues methods whose hardship and injustice have often been judicially commented upon. U. S. v. Freight Assocn., 166 U. S., 321, 17 Sup. Ct., 540, 41 L. Ed., 1007. In my judgment the prevention or limitation of practices such as plaintiff's (so far as consistent with statute law) is the reverse of unreasonable. * * *

"* * * How it can be called substantial and unreasonable restraint of trade to refuse to deal with a man who avowedly is to use his dealing to injure the vendor, when said vendor makes and sells only such an advertisement begotten article as Cream of Wheat, whose fancy name needs the nursing of carefully handled sales to maintain an output of trifling moment in the food market, is beyond my comprehension."

Great Atlantic & Pacific Tea Company v. Cream of Wheat Company, 224 Fed. Rep., 566, 573, 574; see also other extracts from this case quoted above under this subdivision of this Point.

"Obviously, therefore, the public already has competition to the fullest extent desirable, not a competition entailing the waste of duplication and overlapping effort in marketing the product, with sporadic price-cutting of an irrational sort, but the competition of many products, each independently seeking public favor, against one of like character, but slightly different. Is not each manufacturing now under the highest sort of pressure from without? Must it not be alert to discover new improvements and conveniences and to keep down to the minimum the cost of construction and distribution? It is a matter of public knowledge that fortunes are spent in advertising these competitive products, in an effort to attract and cultivate public favor. Under such conditions will the public be benefited by requiring the manufacturer to assume the further burden of internal guerrilla competition, with the confusion and waste entailed thereby? It is futile to say that such a burden will fall not upon the manufacturer or the public, but upon the local

dealer or distributor. If there were ten dealers selling Ford cars in Portland, where there is now but one, would not the expense of marketing be greatly increased, and if, as is contended, the contract under consideration is harsh to the 'dealer' does it not follow that, with the trade divided into ten parts, and with the expense of rentals and personal services multiplied, the price of the car to the public would increase? Does any one suppose that such dealers would for any considerable length of time cut the price? In the light of experience is it not so probable as virtually to amount to a certainty that the prices would soon reach a common level, and that level would be higher than the present one? Upon the other hand, will the public not have the benefit of the freest and most effective competition if each patentee manufacturer of automobiles is permitted to market his product in his own way? May it not be assumed that, impelled by considerations of self-interest, he will select the most economical method, and that the keen and vigorous competition of innumerable other manufacturers will force him to give to the public the major benefit arising from his economies? At least, we do not think that we would be warranted in holding that the contract here is inherently vicious. If, in fact, it is prejudicial to the public interest because to an unreasonable degree it operates in restraint of trade and interferes with the free play of wholesome competition, the defendants may plead and show the facts."

Ford Motor Company v. Benjamin E. Boone, Inc., 244 Fed. Rep., 335, 341, 342; see also other extracts from this case quoted above under this subdivision of this Point.

"Finally, it seems to us an economic fallacy to assume that the competition which, in the absence of monopoly, benefits the public, is competition between rival retailers. The true competition is between rival articles, a competition in excellence, which can never be maintained if, through the perfidy of the retailer who cuts prices for his own ulterior purposes, the

manufacturer is forced to compete in prices with goods of his own production, while the retailer recoups his losses on the cut price by the sale of other articles at, or above their reasonable price. It is a fallacy to assume that the price cutter pockets the loss. The public makes it up on other purchases. The manufacturer alone is injured, except as the public is also injured through the manufacturer's inability, in the face of cut prices, to maintain the excellence of his product. * * * It will not do to say that the manufacturer has no interest to protect by contract in the goods after he has sold them. They are personally identified and morally guaranteed by his mark and his advertisement (*Mazetti v. Armour & Co.*, 75 Wash., 622, 135 Pac., 633). His reputation as a manufacturer, one of his chief assets, is bound up in them."

> *Fisher Flouring Mills Company v. Swanson*, 76 Wash., 649, 669; see, also, other extracts from this case quoted above under this subdivision of this Point.

Articles exist, therefore, whose circumstances in respect of competition from rival articles in the same line of commerce, and whose characteristics in respect of popularity, good will, demand and market, acquired through legitimate effort and expenditure by the manufacturer in sales promotion and advertising, wholly distinguish them from the circumstances and characteristics of Dr. Miles' medicines as described in the Dr. Miles case, and squarely place restrictive agreements upon the resale price of particular brands of such articles in the very category of agreements conceded by this Court in the Dr. Miles case to be lawful.

Not only in the Dr. Miles case but also in many other cases, analogous circumstances and analogous characteristics have been held by this Court to save restrictive agreements of other kinds from the prohibition of the Sherman Act. After this Court's general statement of this proposition already quoted from the Dr. Miles case it seems unnecessary to col-

lect the many applications which this Court has made of this proposition to specific cases. Before passing, however, to an analysis of other so-called price maintenance cases, another statement of the same proposition, endorsed by this court and discussed in some of the cases hereinafter cited, may be quoted from the opinion of Judge TAFT in *United States v. Addyston Pipe and Steel Company*, 85 Fed. Rep., 271:

> " For the reasons given, then, covenants in partial restraint of trade are generally upheld as valid when they are agreements (1) by the seller of property or business not to compete with the buyer in such a way as to derogate from the value of the property or business sold * * * (4) by the buyer of property not to use the same in competition with the business retained by the seller. * * * Before such agreements are upheld, however, the court must find that the restraints attempted thereby are reasonably necessary (1, 2 and 3) to the enjoyment by the buyer of the property, good will or interest in the partnership bought ; or (5) to the prevention of possible injury to the business of the seller from use by the buyer of the thing sold. * * *
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> " It would certainly seem to follow from the tests laid down for determining the validity of such an agreement that no conventional restraint of trade can be enforced unless the covenant embodying it is merely ancillary to the main purpose of a lawful contract, and necessary to protect the covenantee in the enjoyment of the legitimate fruits of the contract, or to protect him from the dangers of an unjust use of those fruits of the other party. * * *
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> " The covenant is inserted only to protect one of the parties from the injury which, in the execution of the contract or the enjoyment of its fruits, he may suffer from the unrestrained competition of the other. The main purpose of the contract suggests the measure of protection needed, and furnishes a sufficiently uniform standard by which the validity of such restraints may be judicially determined " (pp. 281-283).

John D. Park & Sons Company v. Hartman, 153 Fed. Rep., 24, which this Court cited and approved in the Dr. Miles case, presented facts substantially similar in all respects to those of the Dr. Miles case. By a "secret process" Hartman controlled the entire output of Peruna. By a system of interlocking contracts, Hartman took an agreement from each of his wholesellers not to sell at less than a specified price, nor to sell to any one except retailers who were under contract with Hartman; from every such retailer Hartman took an agreement not to sell at less than a specified price, nor to sell at any price to any wholesaler or retailer except such as were under contract with Hartman. No such system of contracts, be it noted, is disclosed in the agreement and other facts certified in the present case. Instead of controlling merely one brand of a general commodity of commerce, Hartman, by his own admission, controlled a product that was *sui generis* and had no competitors, and commercially was a "monopoly." That was the theory on which Hartman presented his case to the court. None of these monopolistic features, be it noted, are disclosed in the facts certified in the present case. Hartman sued the Park Company, which was not a party to any contract with Hartman, and sought to enjoin the Park Company from procuring Peruna from any dealer who had executed one of these contracts with Hartman, and from selling or advertising Peruna at less than the price prescribed in these contracts. Since it plainly appeared, however, that Hartman's system of contracts totally restricted competition in the sale of a product which, upon Hartman's own admission, was *sui generis*, and had no competitors, and commercially was a "monopoly," there was obviously no escape from the conclusion that there had been such an undue, in fact, an absolutely total, restriction of competition in an entire line of commerce as necessarily to monopolize and unduly restrain trade. Accordingly, the court refused to grant Hartman an injunction.

Three determining factors in the Park case are wholly absent in the present case; the monopolistic features of Peruna; Hartman's system of contracts, by which was controlled the resale price of the manufacturer's vendee, and also the resale price of the sub-vendee of the manufacturer's vendee; and the absence of any contractual relation between Hartman and Park Company.

In the Park case, Judge LURTON, after discussing the opinion of Judge TAFT in the Addyston case above quoted, referred to the monopolistic feature presented in the Park case by the "secret process" under which Peruna was manufactured, and stated that

> "* * * it may be a factor in determining whether the covenants exacted of jobbers and retailers, alike regulating subsequent sales and selecting subsequent buyers, are no more than necessary to afford a fair protection to the business of the complainant and not so large as to interfere with the interests of the public. There can be no hard and fast rule by which the result can be reached in such cases. At last the question must come to this: 'What is a reasonable restraint with reference to a particular case?'" (pp. 42, 43).

That articles might exist, whose circumstances in respect of competition from rival articles in the same line of commerce, and whose characteristics in respect of popularity, good will, demand and market acquired through legitimate effort and expenditure by the manufacturer in sales promotion and advertising might distinguish them from Peruna as described in the Park case, seems conceded by Judge LURTON in his discussion of Judge TAFT's opinion above quoted and by Judge LURTON's language, as follows (pp. 44, 45):

> "A partial restraint of competition may be upheld when one sells a business or other property, provided it is no greater than necessary to enable the vendor to realize the value of his good will or to secure to the buyer the enjoyment of his purchase, or to prevent the

use of the property to the prejudice of the seller. * * * The covenants in the contracts signed by the retailers are not even collateral to any sales by the complainant, but to sales made by the wholesalers. * * * Covenants protecting the seller of property against the competition of the buyer, by its use against the business retained by the seller, which are upheld if not wider than necessary for that purpose, have been covenants where the main purpose has been to protect the seller himself against competition directed against his retained business."

In *Bobbs-Merrill Company v. Straus*, 210 U. S., 339, Bobbs-Merrill Company, by copyright, owned the "sole" right of "vending" a novel entitled "The Castaway". By a notice printed in each copy of the book, Bobbs-Merrill Company purported to license the book to be sold at one dollar, and forbade any dealer to sell the book at a less price. From parties other than the Bobbs-Merrill Company, Straus purchased some books containing this notice and sold them for less than one dollar. The question presented to this Court was whether Bobbs-Merrill Company could sue Straus for infringement of the copyright. In its decision, this Court was careful to point out that there was no "agreement between the parties to such sale obligating the party to control future sales" (p. 343), and that Bobbs-Merrill Company "disclaims relief because of any contract, and relies solely upon the copyright statutes" (p. 346), and that Straus had "made no agreement as to the control of future sales of the book, and took upon themselves no obligation to enforce the notice printed in the book" (p. 350), and that "there is no claim in this case of contract limitation, nor license agreement controlling the subsequent sales of the book" (p. 350). "The precise question," said this Court, was whether "because of a notice in the book * * * a sale at a different price will be treated as an infringement" (p. 350). That Bobbs-Merrill Company's monopolistic control

of the commodity in question was a determining factor in this Court's decision that there was no infringement is clear from this Court's conclusion that " to add to the right of *exclusive sale* the power to control all future retail sales, by a notice that such sales must be made at a fixed sum, would give a right not included in the terms of the statute " (p. 341).

In *Bauer v. O'Donnell*, 229 U. S., 1, the Bauer Company controlled by patent the entire manufacture, sale and use of Sanatogen. By a notice affixed to each package of Sanatogen, the Bauer Company purported to license it " for sale and use at a price not less than one dollar." From parties other than the Bauer Company, O'Donnell bought some Sanatogen bearing this notice, and sold it for less than one dollar. By the Bauer Company's own admission, " the public has had no previous rights or experience in free competition in the article " (p. 5). Nor has the public ever at any time had any; for under its patent the Bauer Company had an absolute monopoly. Furthermore, O'Donnell was not in any contractual relation with the Bauer Company, and the restriction which the Bauer Company sought to enforce was a restriction not upon a vendee from the Bauer Company but upon a remote sub-vendee with whom the Bauer Company had no agreement. The question presented to this Court was whether O'Donnell's acts in selling Sanatogen for less than one dollar constituted an infringement of the Bauer Company's patent. This Court held that they did not, and further indicated that the rule of the Dr. Miles Case would apply. Since the Bauer Company, like the Dr. Miles Company, controlled a product which, by its own admission, was *sui generis*, and had no competitors, and commercially was a " monopoly," there was obviously no escape from the conclusion that there had been such an undue, in fact an absolutely total, restriction of competition in an entire line of commerce as necessarily to monopolize and unduly restrain trade.

The same distinction, with particular application to several

of the Supreme Court and lower Federal Court cases was made by the Supreme Court of California in *Ghirardelli v. Hunsicker*, 164 Cal., 355, where the Court upheld a resale price arrangement affecting a single brand of chocolate. The Court said (pp. 35–37):

> " In each of the federal cases, the contract *involved the whole of a certain product*, in one case the product being a certain well-known proprietary medicine named ' Peruna,' and in the other case the product consisting of certain well-known proprietary medicines. The opinion of Mr. Justice LURTON (then circuit judge), in Park v. Hartman, 153 Fed., 24 (12 L. R. A. (N. S.), 135, 82 C. C. A., 158), quoted in part by the United States Supreme Court in *Dr. Miles, etc., Co. v. Park, etc., Co.*, 220 U. S., 373 (55 L. Ed., 502, 31 Sup. Ct. Rep., 376), shows the effect of the contracts involved in that case to be the absolute prevention of any competition in respect to prices between retailers who supplied the public with the product named amounting to a complete restraint as to ' Peruna ' generally. The learned judge was here talking of a case where the whole supply of the article on the market, by whomsoever manufactured, was involved, for he said: ' It is true that the complainant is not in a combination with other makers of ' Peruna.' There are no others, if there were, there would not be a complete or general restraint; for it might then happen that these others, not being bound by any covenants, could supply the public. If the supply to come from them was adequate for the public demand, the public might be in no wise affected. Now, if the complainant had absorbed all the sources from which the demand for lumber, or furniture, or stoves could be supplied, and then should say, ' I will sell only to those who will resell only to those I shall license to buy and only at the price I dictate,' could any voice be raised to say that the covenants which every dealer should sign in order to prevent exclusion from trade in such articles, would be upheld by the courts? ' *Grogan v. Chaffee*, 156 Cal., 611 (27 L. R. A. (N. S.), 395, 105 Pac., 745, did not involve a contract affecting the whole or even

any large proportion of the supply of olive oil available n the market. This feature was expressly recognized by the court in discussing the question of attempted monopoly and unreasonable restraint of trade. It was said: 'The contract here relied on does not relate to any olive oil except that manufactured by plaintiff. There is no suggestion that this comprises all, or any large portion, of the olive oil manufactured or sold in the market supplied by plaintiff. *While plaintiff alleges that he manufactures oil by a process of his own discovery, there is nothing exclusive in the product resulting from this process. All that he claims for his oil is that it is pure and wholesome. The court must assume, as a matter of* common knowledge, that others may and do manufacture pure olive oil in considerable quantities.' *The same is substantially true of plaintiff's ground chocolate. That it comes anywhere near controlling the market in ground chocolate is not suggested*, and as a matter of common knowledge we do know that others may and do manufacture and sell such chocolate in considerable quantities. *Plaintiff simply claims to be producing a superior quality of ground chocolate. This feature, common to this case and that of Grogan v. Chaffee, which was taken by the federal courts to be absent from the cases decided by them which we have referred to, is a most material matter in the determination of the question whether such restraint of trade as results from the contract, is such as to render the contract void as imposing an unreasonable restraint.* It is expressly recognized by the Supreme Court of the United States, in *Dr. Miles Medical Co. v. Parks*, 220 U. S., 373 (55 L. Ed., 502; 31 Sup. Ct. Rep., 376), that the mere fact that some restraint results does not render the contract void. It was said by the court, through *Mr. Justice Hughes:* 'With respect to contracts in restraint of trade, the earlier doctrine of the common law has been substantially modified in adaptation to modern conditions. But the public interest is still the first consideration. To sustain the restraint, it must be found to be reasonable both with respect to the public and to the parties, and that it is limited to what is fairly necessary, in the cir-

cumstances of the particular case, for the protection of the covenantee. Otherwise restraints of trade are void as against public policy. * * * Public welfare is first considered, and *if* it be not involved, and *the restraint upon one party is not greater than protection to the other party requires, the contract may be sustained.* The question is whether, under the particular circumstances of the case and the nature of the particular contract involved in it; the contract is, or is not, unreasonable. (Citing cases.)' The opinion of Mr. Justice LURTON in *Park & Sons v. Hartman*, 153 Fed., 24 (12 L. R. A. (N. S.), 135, 82 C. C. A., 158), indicates that he would uphold such a covenant as is here involved where it is 'no more than necessary to afford a fair protection to the business of the complainant and not so large as to interfere with the interests of the public.' He further said: 'There can be no hard and fast rule by which the result can be reached in such cases. At last the question must come to this: 'What is a a reasonable restraint with reference to a particular case?' *We do not think that the federal cases relied on should be construed as holding that such contracts as are involved in Grogan v. Chaffee, and in this case, are, under such circumstances as appear in these cases, unenforceable as being in restraint of trade, either under the common law, or the act of Congress known as the Sherman Anti-trust Act.* Of course we are not in this case concerned with any question of interstate commerce, so that any question as to the effect of that act is not involved. We see no reason for modifying the rules expressed in *Grogan v. Chaffee*, 156 Cal., 611 (27 L. R. A. (N. S.), 395, 105 Pac., 745), upon the question there decided.'"

The same distinction, with particular application to several of the Supreme Court and lower Federal Court cases, was made by the Supreme Court of Washington, in *Fisher Flouring Mills Company v. Swanson*, 76 Wash., 649, where the Court upheld a resale price arrangement affecting a single brand of flour which was "sold in all markets in constant and keen

competition with many other brands of patent flour of all qualities." The Court said (pp. 107-111):

> "Such a contract as that here in question is of interest to the public only where the whole of a given commodity, or a measurable approximation to the whole of that commodity, is in the control of one of the contracting parties, or of some combination of which he is a member or which dictates his policy" (pp. 103, 104).
>
> "The respondent relies solely upon the following decisions: *Park & Sons Co. v. Hartman*, 153 Fed., 24, *Bobbs-Merrill Co. v. Straus*, 210 U. S., 339, and *Dr. Miles Medical Co. v. Park & Sons Co.*, 220 U. S., 373; affirming the decision of the circuit court of appeals in 164 Fed., 803. The decision in *Park & Sons Co. v. Hartman* is not necessarily in antagonism to the views here expressed. That case involved a monopoly. It holds that there is no such analogy between the statutory monopoly accorded by the patent laws and the monopoly resulting from the sole possession of a trade secret as to make it lawful to protect the latter by contracts or notices fixing the retail price, as is permitted in the case of patented articles. The opinion is devoted largely to a demonstration of the proposition, which we deem unquestionably sound, that the owner of a secret formula for the manufacture of a proprietary medicine, though he may protect the secret by contract against its disclosure, cannot protect the profits resulting from his monopoly in the manufactured article (in that case, Peruna), by contracts or notices fixing a minimum price at which the jobbers and retailers shall sell it. That the effect of the contracts there involved was an absolute prevention of any competition in prices, a complete or general restriction as to Peruna, because of their application to the whole supply of that article on the market, is shown by the opinion, where it is said:
>
> "Thus all room for competition between retailers, who supply the public, is made impossible. If these contracts leave any room at any point of the line for the usual play of competition between the dealers in the

product marketed by the complainant, it is not discoverable. Thus a combination between the manufacturers, the wholesalers, and the retailers to maintain prices and stifle competition has been brought about. It is true that the complainant is not in a combination with other makers of 'Peruna.' There are no others. If there were, there would not be a complete or general restraint; for it might then happen that these others, not being bound by any covenants, could supply the public. If the supply to come from them was adequate for the public demand, the public might be in no wise 'affected.'

"That the learned Judge who wrote the opinion recognized the validity of such contracts as between the actual contracting parties, where no monopoly is involved, and when merely ancillary to some main contract, and reasonably necessary to the protection of the retained business of the covenantee, is also evident from the following language which further distinguishes that case from the one before us:

"'Looking to the averments of the bill as a whole and to the scheme of business as disclosed by the contracts themselves, we cannot escape the conclusion that the covenants restricting sales and resales have as their prime object the suppression of competition between those who buy to sell again. Any benefit to the retained business result from them is manifestly but an incident of the main purpose, which is to benefit his vendees and subvendees by breaking down their competition with each other. Restraints which might be upheld if ancillary to some principal contract cannot be enforced if, when unmasked, they appear to be the main purpose of the contract and not subordinate. The covenants in the contract signed by the retailers are not even collateral to any sales by the complainant, but to sales made by the wholesalers. Although they run to the complaint, their prime purpose is neither the protection of the retained business of the complainant, nor of the wholesaler, but only to prevent competition between retailers. Covenants protecting the seller of property against the competition of the buyer, by its

use against the business retained by the seller, which are upheld if not wider than necessary for that purpose, have been covenants where the main purpose has been to protect the seller himself against competition directed against his retained business.'

" The opinion, when fully considered, fairly recognizes every principle hereinbefore developed from the authorities as sustaining the contract here involved.

" In *Bobbs-Merrill Co. v. Straus*, it was held that the sole right to vend a copyrighted book secured by the United States statute to the owner of the copyright does not include the right to impose by a mere notice printed on the same page with the notice of copyright, a limitation as to the price at which the book shall be sold at retail by future purchasers with whom there is no privity of contract. The distinction from the case in hand is too plain to require further comment.

" Nor do we deem the decision of the United States Supreme Court in *Dr. Miles Medical Co. v. Park & Sons Co.* controlling on the facts here presented. In that case, the bill alleged the manufacture of certain proprietary medicines under secret formulæ and processes, and the sale thereof under trade-marks and tradedress; that to prevent injury to its business by the sale of its medicines at cut prices, complainant had adopted a dual system of contracts controlling the sale and resale of its product; that the system contemplated consignments to wholesale dealers, permitting them to sell only to other contracting wholesale dealers and retail dealers who had also contracted with the complainant to sell its goods at fixed prices; that the defendant refusing to enter into a consignment contract, had induced complainant's wholesale and retail agents, by means of fraudulent representations, to violate their contracts and sell goods of complainant's manufacture to the defendant, with the intention of selling such goods at cut rates to attract customers for other merchandise. An injunction against this practice was sought. It appeared that consignment contracts had been made with over four hundred jobbers and wholesalers, and retail agency contracts with twenty-

five thousand retail dealers in the United States. The Court refused relief on the ground that, by its system of interlocking restrictions, complainant sought to control not only the prices at which its agents might sell its product, but the prices for all sales by all dealers at wholesale or retail, whether purchasers or sub-purchasers, and thus fix the amount which the consumer shall pay, eliminating all competition. The Court held that such a system amounts to a restraint of trade, and is invalid both at common law and under the Sherman Anti-Trust Act. It will be noted that the system there involved had no purpose save to create and perpetuate a monopoly which, under any view of the authorities, is invalid. While certain expressions in the opinion might appear contrary to the views we have expressed, the opinion expressly states that the mere fact that some restraint results does not necessarily render the contract invalid, and clearly recognizes the principles upon which the contract here involved must be held valid. Mr. Justice HUGHES, speaking for the Court uses the following language:

"'With respect to contracts in restraint of trade the earlier doctrine of the common law has been substantially modified in the adaptation to modern conditions. But the public interest is still the first consideration. To sustain the restraint, it must be found to be reasonable both with respect to the public and to the parties and that it is limited to what is fairly necessary, in the circumstances of the particular case, for the protection of the covenantee. Otherwise restraints of trade are void as against public policy. As was said by this Court in *Gibbs v. Baltimore Gas Co.*, 130 U. S., page 409, 'The decision in *Mitchell v. Reynolds*, 1 P., Wms., 181; S. C. Smith's Leading Cases, 407, 7th Eng. Ed.; 8th Am. Ed., 756, is the foundation of the rule in relation to the invalidity of contracts in restraint of trade; but as it was made under a condition of things, and a state of society, different from those which now prevail, the rule laid down is not regarded as inflexible, and has been

considerably modified. Public welfare is first considered, and if it be not involved, and the restraint upon one party is not greater than protection to the other party requires, the contract may be sustained. The question is whether, under the particular circumstances of the case and the nature of the particular contract involved in it, the contract is, or is not unreasonable. *Rousillon v. Rousillon*, 14 Ch. D., 351; *Leather Cloth Co. v. Lorsont*, L. R., 9 Eq., 345'."

From the analysis of the authorities above, this rule emerges:

No agreement in the nature of so called resale price maintenance violates the Sherman Act unless, in the light of reason upon all the facts and circumstances of the particular case, it constitutes such an undue restriction of competition in some line of commerce as to monopolize or (unduly) restrain trade. "The surrounding circumstances," "all the circumstances connected with the transaction," "the facts and circumstances of each individual case" and "all the surrounding circumstances, which may be multifarious," must "be considered in order to determine the fundamental question whether the necessary effect of the combination is to restrain interstate commerce." First among the "facts and circumstances" so to be considered are *(a)* the presence or absence of monopolistic features, viz.: Is the article *sui generis*, without competitors, and commercially the only article in its class; or is it only one of many articles in its class, and distinguishable from competing articles in the same line of commerce only by some brand, or trade name or other characteristic feature? and *(b)* the presence or absence of pre-eminent good-will features, viz.: Has the manufacturer, through sales promotion, advertising, or otherwise, rallied around his particular article such popularity, good-will and demand, in truth such a market, that it appears as an economic and commercial fact that the manufacturer, rather than the dealer, has created the consumer demand and market for it,

and that the consumer, when he purchases it, holds the manufacturer, rather than the dealer, responsible, and regards the manufacturer, rather than the dealer, as the real principal, even though it is the dealer who actually passes the title; and *(c)* the extent of the restrictive arrangement, viz.: Does the arrangement transcend the requirements and necessities of the good will features, or restrict the resale price beyond the manufacturer's immediate vendee; or is the arrangement limited to the requirements and necessities of the good will features, and furthermore simply an agreement between the manufacturer and his immediate vendee restricting only the price at which the latter shall resell the particular article? All these "facts and circumstances" must be considered in "each individual case." If there be found in any particular "individual case" *(a)* an absence of monopolistic features and *(b)* a pre-eminence of good will features and *(c)* a limitation of the restrictive arrangement to the requirements and necessities of the good will features, and a limitation of the restrictive arrangement to the manufacturer's immediate vendee with whom the manufacturer is in a direct contract relation, then, by the general rule of the Sherman Act discussed in the preceding subdivision of this Point, and by the particular rule of the Sherman Act set forth in the decisions examined above under this present subdivision, there is no violation of the Sherman Act.

3. *Does Public Policy, Independently of the Sherman Act, Suggest Any Other Rule Applicable to the Agreement and Other Facts Certified in This Case?*

The only suggestion of any rule of this sort is Judge LURTON'S reference in *John D. Park & Sons Company v. Hartman*, 153 Fed., 24, 39, to the rule against restraints upon alienation of personal property, to which this Court also has referred in several of the cases.

Dr. Miles Medical Company v. Park & Sons Company, 220 U. S., 373, 404, 405.

Straus v. Victor Talking Machine Company, 243 U. S., 490, 500, 501.

In *John D. Park & Sons Company v. Hartman*, 153 Fed., 24, 39, Judge LURTON said :

> " The right of alienation is one of the essential incidents of a right of general property in movables, and restraints upon alienation have been generally regarded as obnoxious to public policy, which is best subserved by great freedom of traffic in such things as pass from hand to hand. General restraint in the alienation of articles, things, chattels, except when a very special kind of property is involved, such as a slave or an heirloom, have been generally held void. ' If a man,' says Lord Coke, in Coke on Littleton, Section 360, ' be possessed of a horse or any other chattel real or personal, and give his whole interest or property therein, upon condition that the donee or vendee shall not alien the same, the same is void, because his whole interest and property is out of him so as he hath no possibility of reverter; and it is against trade and traffic and bargaining and contracting between man and man.' It is also a general rule of the common law that a contract restricting the use or controlling subsales cannot be annexed to a chattel so as to follow the article and obligate the subpurchaser by operation of notice " (see also extracts from this case quoted above under the previous subdivisions of this Point).

To the suggestion set forth in the title of the present subdivision of this Point, there are two answers :

First. The rule against restraints upon alienation of personal property, so far at least as concerns so-called resale price arrangements affecting articles in interstate commerce, is undoubtedly caught up and fully expressed by, and merged in, the " generic enumeration " and " generic designation " and comprehensive prohibitions of the Sherman Act.

Standard Oil Company v. United States, 221 U. S., 1, 49-64.

United States v. American Tobacco Company, 221 U. S., 106, 178–181,

and, therefore, all the considerations discussed under the preceding subdivision of this Point establish that, under such facts and circumstances as were therein indicated, there might be agreements in the nature of so-called price maintenance which would in no way offend against public policy.

SECOND. The rule against restraints upon alienation of personal property, upon Judge LURTON'S own statement in the *Park* case, is against limitations and qualifications upon the *property* interest, the *title*, of the purchaser and sub-purchasers of the article; and so far as concerns the *contractual* capacity of the vendor, the rule does not operate except against attempts by contract to control *sub-purchasers* as distinguished from purchasers; and even when thus limited and qualified, the rule does not apply to certain articles whose acquired, intangible attributes distinguish them commercially from similar commodities in the same line of commerce. Judge LURTON conceded, and this Court and other Federal Courts in other cases have held, that trading stamps and railroad tickets are sound exceptions to the rule against restraints upon the alienation of personal property.

John D. Park & Sons Company v. Hartman, 153 Fed., 24, 31.

Bitterman v. Louisville & Nashville R. R. Co., 207 U. S., 205, 222.

Sperry & Hutchinson Company v. Mechanics' Clothing Company, 128 Fed., 800.

Sperry & Hutchinson Company v. Weber & Company, 161 Fed., 219.

As regards trading stamps, it seems to have been a determining circumstance that the trading stamps in question had acquired such popularity, good will, and in truth such a market, through the originator's own effort and expenditure in sales promotion and advertising, that restraint upon their

alienation was held to be reasonable and proper protection against damage to the originator's interest—the originator's "reverter", to use Lord COKE'S phrase—in this popularity, good will and market which his own effort and expenditure had created.

> "It is alleged by the complainant, and not disproven, that complainant and its predecessors originated this method of advertising, as it is termed in the bill, and that large sums of money and great labor have been expended in perfecting and popularizing it; so that at the time the bill was filed its green trading stamps had become widely known as a valuable medium for advertising. As a part of the benefit to its subscribers, complainant causes circulars to be distributed, house to house canvasses to be made, and the attention of customers to be attracted to the subscribers' business, thus taking the place, to a degree, or supplementing ordinary advertisements. * * * It is the essence of complainant's business that its subscribers shall get the full benefit of its methods of advertising and assistance. * * * It is not fair to say that complainant's only interest consists in the presentation of the stamps for redemption, if the means employed to that end result in killing the demand of subscribers for the stamps. The parties are entitled to carry on their affairs in such a way as to serve the business interests of each, so long as they are lawfully conducted. To create an unfair market for partly filled and nontransferable stamp books would have a tendency to keep purchasers from trading with subscribers until they were filled. This has been held in a number of cases instituted by complainant to protect its business."
>
> *Sperry & Hutchinson Company v. Weber*, 161 Fed., 219, 220.

> "Upon the proofs, I find that the title to the stamps, while they are in the hands of the merchant, is a limited one, and that he acquires no right to dispose of them otherwise than according to the contract. It follows

that merchants who should sell the stamps or dispose of them not in the way prescribed would violate the contract with the company."

Sperry & Hutchinson Company v. Mechanics' Clothing Company, 128 Fed., 800, 801 ; cited with approval upon this point in *Bitterman v. Louisville & Nashville R. R. Co.*, 207 U. S., 205, 222.

Where the manufacturer, through sales promotion, advertising, or otherwise, has rallied around his particular article such popularity, good will, and demand, and in truth such a market, that it appears as a economic and commercial fact that the manufacturer, rather than the dealer, has created the consumer demand and market for it, and that the consumer, when he purchases it, holds the manufacturer, rather than the dealer, responsible, and regards the manufacturer, rather than the dealer, as the real principal, a state of facts entirely different from the case of Lord Coke's horse seems to be presented ; and none of the considerations which gave rise to the rule against restraints upon the alienation of personal property seem to apply, particularly, in a case like the present, where the restrictive agreement is limited to the requirements and necessities of these good-will features, and restricts only the price at which the manufacturer's immediate vendee shall resell the particular article.

There seems, therefore, nothing either in the Sherman Act or in public policy independently of the Sherman Act to disturb the conclusion reached under the previous subdivision of this Point; namely, that neither the Sherman Act nor public policy is offended by an arrangement in the nature of so-called resale price maintenance in any particular case where there is an absence of monopolistic features, and where pre-eminent good will attaches to and is conveyed with the article, and where the arrangement is limited to the requirements and necessities of this good will and to the manufacturer's immediate vendee with whom the manufacturer is in direct contractual relation.

4. *Application of the Pertinent Legal Conclusions to the Agreement and Other Facts Certified in the Case at Bar, as Indicating the Appropriate Answer to Question 4.*

The distinction between the *right to exercise the patent monopoly*, which is an incorporeal property right, and the *title to the physical article*, which is corporeal property, and the distinction between a *limitation upon the grant of a right under the patent monopoly*, violation of which is a *trespass* and a *tort*, for which the remedy is a *suit for patent infringement*, and a *contract* between the vendor and his immediate *vendee* restricting such immediate *vendee*, but not any sub-vendee, in his resale of the *physical article*, violation of which right is a *breach of contract*, for which the remedy is an *action for breach of contract*, have both been fully explained under preceding Points of this brief.

Both rights have there been shown to co-exist frequently in the same case, neither right conflicting in any way with the other, nor detracting from the other, and each right affording its proper remedy independently of, and in addition to, the remedy afforded by the other.

Sound producing machines and products constitute a class of commodities, of which the specially patented products of the complainant are but a species. Between the varying species of this general class there is widespread and acute competition. The complainant's patent monopoly only consists in a special form of its own sound producing machines and products, and it is a matter of common knowledge that these products compete with other kinds of phonographs and phonographic records manufactured under other processes, and in some cases other patents.

Having in mind, always, the distinction between the incorporeal and narrowly-defined monopoly afforded by a patent, and the corporeal physical article embodying the invention covered by the patent, the fact that an article may embody an invention covered by a patent can never be

taken as evidence that the article itself is in any sense a commercial or economic monopoly. Monopoly in the commercial and economic sense, which is the only kind of monopoly about which public policy and the Sherman Act are concerned, exists only when there is, in some substantial and undue degree, lack of competition in some particular line of commerce. Hundreds of articles embodying inventions covered by patent are subject to the keenest competition from rival articles in the same line of commerce. That these articles, competing on all fours in every market they enter with hundreds of rival articles in the same line of commerce, are monopolies in the sense intended by public policy and the Sherman Act, contradicts not only the whole theory of the patent law, but also the plainest facts of general knowledge and human experience.

The facts certified in this case show "an agreement in writing" between the Boston Store and the Columbia Company "acting as agent of the American Company" in which the Boston Store agreed to take Columbia Graphaphones, Grafanolas, records and supplies from the Columbia Company and to "be bound by the official list prices established from time to time by said Company" and not to "give away, sell, offer for sale, nor in any way dispose of such goods, either directly or through any intermediary, at less than such list prices, nor induce the sale of such goods by giving away or reducing the price of other goods, nor sell or otherwise dispose of any of said goods, directly or indirectly, outside of the United States." The facts certified further show that similar contracts exist between the Columbia Company and "over five thousand dealers in phonographic records located in the United States and its territorial possessions."

From previous subdivisions of this Point it appears that neither the Sherman Act nor public policy is offended by an arrangement in the nature of so-called resale price maintenance in any particular case where there is an absence of

monopolistic features, and where pre-eminent good-will attaches to and is conveyed with the article, and where the arrangement is limited to the requirements and necessities of this good-will and to the manufacturer's immediate vendee with whom the manufacturer is in a direct contractual relation.

Merely because the facts certified in this case disclose an agreement, or five thousand similar agreements, between the Columbia Company and its dealers in the nature of so-called price maintenance, this Court, it is submitted, will hardly shut its eyes to all the foregoing considerations, and arbitrarily assume, in favor of the appellant and against the appellees and the lower court in this case, that this agreement, or these agreements, which may well be lawful for the reasons hereinbefore set forth, are necessarily and incontrovertibly to be presumed to be illegal. As has been shown above under preceding subdivisions of this Point, "the surrounding circumstance," "all the circumstances connected with the transaction," "the facts and circumstances of each individual case," and "all the surrounding circumstances, which may be multifarious," must "be considered in order to determine the fundamental question whether the necessary effect of the combination is to restrain interstate commerce." In *Continental Wall Paper Co. v. Voight & Sons Co.*, 212 U. S., 227, this Court said that "the court will not be restricted to a partial statement of the facts, but will consider all the circumstances connected with the transaction so as to ascertain its real nature. In *Addyston Pipe & Steel Co. v. United States*, 175 U. S., 211, 247, the Court said that "all the facts and circumstances are, however, to be considered in order to determine the fundamental question whether the necessary effect of the combination is to restain interstate commerce" (266) In the present case, therefore, this Court, it is believed, will say, with the Circuit Court of Appeals in *Ford Motor Company v. Benjamin E. Boone, Inc.*, 244 Fed., 335, 342: "At least, we do not

think we would be warranted in holding that the contract here is inherently vicious. If, in fact, it is prejudicial to the public interest because to an unreasonable degree it operates in restraint of trade and interferes with the free play of wholesome competition, the defendants may plead and show the facts."

All the inferences deducible from the facts certified in the present case tend, indeed, to sustain the validity of the agreement herein.

Neither the Sherman Act nor public policy, as we have shown, is offended by an arrangement in the nature of so-called resale price maintenance in any particular case where there is an absence of monopolistic features, where preeminent good-will attaches to the article, and where the arrangement is limited to the requirements and necessities of this good-will and to the manufacturer's immediate vendee with whom the manufacturer is in a direct contractual relation.

We respectfully submit that the facts certified clearly bring the present case within the above rule. Each of the three requisites indicated in above statement of the rule exists here.

Monopolistic features are absent.

Phonograph records, as articles of commerce, are not *sui generis*, as were the articles in the Dr. Miles case. The finished Columbia records, even in the hands of dealers who are under contract with the manufacturer, have to compete with phonograph records of good quality produced by other manufacturers.

This Court will " take judicial cognizance of all matters of general knowledge " (*Muller vs. Oregon*, 208 U. S., 412, 421).

It is a matter of common or general knowledge that there are at least three well known and competing brands of phonograph records,—the " Columbia," the " Victor " and the " Edison," manufactured and marketed by different and competing producers. It would be difficult to name an article (not a necessity) used in modern life, as to which the fact of com-

petition between different brands or makes is better or more widely known.

There is nothing in the facts certified tending to indicate that Columbia records control or monopolize the entire field of competitive commerce in phonograph records, nor even to show what proportion the sales of Columbia records bears to the sales of records of all makes. And in the absence of such showing, it is fair to infer from the fact of competition by other makes of records, that the Columbia Company does not, through the volume of its business, have or exercise any unreasonable control or restraint (either actual or potential) upon trade.

Moreover, the fact that the Columbia Company has dealers' contracts with more than five thousand dealers in the United States, does not even tend to show monopolistic control. It merely tends to show the extent of the market in which Columbia records compete with other brands of records. It does not tend to show the extent to which, in that market, Columbia records are a controlling, or dominating, or even an influential factor.

Certainly no presumption of monopolistic control can be indulged merely from the fact that the manufacturer of so widely known and generally used an article as phonograph records distributes them through five thousand dealers scattered throughout the United States.

And the fact that the contracts are made with, and seek to restrain only, those dealers who obtain stocks of records direct from the Columbia Company for the purpose of dealing in them, shows that even in respect of Columbia products the entire field is not sought to be covered. The purchasing public who use the records are not sought to be restrained in any way as to use or resale. Nor are dealers sought to be restrained in respect of Columbia records which they may obtain from sources other than the Columbia Company itself.

Nor is there any effort to affect competing articles produced by other manufacturers.

So far as concerns the nature of the article, and its status in the world of commerce, it is clear that no monopolistic features can be found.

If monopolistic features do exist, therefore, they would occur, and should be looked for, in the method in which Columbia records, as competing articles of commerce, are marketed.

What are the facts, certified, which bear upon the method of marketing?

They show: that in order to obtain Columbia records direct from the manufacturer, dealers have to enter into an agreement with the latter, by which they agree, in respect of records received from the manufacturer, to "be bound by the official list prices established from time to time by" the Columbia Company, and not to "give away, sell, offer for sale, nor in any way dispose of such goods, either directly or through any intermediary, at less than such list prices, nor induce the sale of such goods by giving away or reducing the price of other goods, nor sell or otherwise dispose of any of said goods, directly or indirectly, outside of the United States;" that such contracts exist between the Columbia Company and "over five thousand dealers in phonographic records located in the United States and its territorial possessions;" and that the records are known and sold as Columbia records, *i. e.*, that is, their "trade name," or "brand."

And it is a part of the general or common knowledge regarding phonograph records that the trade names "Columbia," "Victor," and "Edison" are the common or ordinary trade designations of the products of their respective makers, the use of which names in each instance points to that particular maker, and, therefore, represents or embodies the good-will of the manufacturer. The name "Columbia" upon a record thus attaches to the article the entire good-will of

the manufacturer, and the reputation for established and consistent good quality and fair and reasonable dealing which the manufacturer has earned by its efforts and advertising, in active competition with other makers of competing records.

It may fairly be stated, upon common knowledge, that Columbia phonograph records constitute articles of commerce in respect of which good-will attaches to the articles and inheres in them to a preeminent extent.

Any method of marketing them which is likely to cause consumers to question or doubt the good faith or reliability or fair and reasonable dealing of the manufacturer, obviously and necessarily impairs the value of his good-will.

So it is clear that the "preeminent good-will" element of the above rule exists in the facts of the case at bar.

Moreover, we respectfully submit that the third element also exists, viz., the arrangement, or marketing method, shown in the case at bar does not go beyond what is reasonably necessary to protect the good-will of the manufacturer by enabling him "to realize the value of his good-will," and to prevent "the use of the property to the prejudice of the seller," by selling the records in a manner which would impair the good-will.

We have endeavored above to show that the popularity and good-will of, and the demand and market for, a branded article known to the consumer through its trade-name, arises and exists primarily as between the consumer and the manufacturer, rather than between the consumer and the mere dealer. The consumer regards the dealer as a mere distributing medium of such articles. In buying sugar from a grocer's bin, he looks to the dealer for quality at a reasonable price. In buying Columbia records, or any other article known by the brand he wants, he disregards the dealer and looks to the manufacturer for assurance that because the article bears the trade-mark it is genuine, and has the character in quality and

reasonableness of price which that brand of articles has the reputation of possessing.

And the mere fact that the dealer owns the title to the records, and passes it to the consumer, does not weaken the force of the well known economic and commercial fact that the handling of such goods by a dealer, in any manner which hurts the reputation of the goods, is attributed by the purchaser to the manufacturer, not to the dealer.

Thus, the maintenance by dealers (who get their stocks of records direct from the manufacturer), of "one price" for the same kind, size and grade of the record of a song by a great artist, tends to give consumers the impression that the record is "*genuine*", that the manufacturer is maintaining the quality for which his goods of that grade are known, and that he is also maintaining the reasonable relation between quality and price, for which his goods are also known.

On the other hand, if such dealers "cut prices," the consumer is likely to at once receive the impression that the quality of the records must have deteriorated, or that they are not genuine, or that the manufacturer is distributing two different grades under the same description and thus misleading the consumer, or that the price theretofore paid by the consumer for the same kind of article was excessive and unfair, or that the manufacturer is "playing favorites" among his dealers.

And other dealers who hear of the price cutting, receive like impressions.

So that the immediate and necessary result is an impairment of the trade reputation and good will of the manufacturer in respect of his goods of that brand. Another necessary result is that the manufacturer is forced to compete with himself, with his own product. And it is of little comfort to him that the dealer's purpose, in sacrificing his goods, was in order, by offering popular goods as "a leader," at cut prices, and even at a loss on those goods to the dealer,

to draw a crowd which would buy other goods at sufficiently high prices to more than cover the dealer's loss. That is " pirating " the manufacturer's good-will for the benefit of the dealer or of some other manufacturer.

By permitting his dealers to " stock up " in his branded articles, the manufacturer, although selling the goods, at the same time entrusts to his dealers, by express agreement with them, the protection of his good-will, which is of infinitely greater value to him than the goods sold to any dealer. By permitting the dealer to sell to the consumer an article in which the manufacturer's good-will inheres, he enables the dealer to preserve or destroy the good-will which belongs to the manufacturer.

The cases cited above show that he may, by contract, lawfully impose such restraint upon the dealer as is reasonable to protect the good-will and to prevent the dealer from injuring it.

Is it not entirely clear that an agreement like that in the case at bar, between the manufacturer and his dealer, restricting the price at which the latter shall resell branded goods, but not seeking to pass on the restriction so as to make it follow the goods, is reasonably limited to the needs of protecting the manufacturer's good-will, which is thus put in jeopardy ?

That the attempted restriction upon resale prices is reasonable in its effect, also appears when the unfairness of holding otherwise is considered.

Thus, in the case at bar, the dealer (the Boston Store) wished to handle Columbia records, *i. e.*, to sell them to the consuming public. It applied to the manufacturer for an opportunity to do so by procuring a stock of records direct from the maker. The latter was willing to permit the Boston Store to become a dealer, and thereby to entrust it with power to injure or protect the entire Columbia good-will, provided the Boston Store would expressly agree not to injure it. In order to get the goods, the Boston Store made such an agree-

ment, and, on the faith of it, procured the goods. It then at once broke faith, by doing the very thing which it had agreed not to do, and it asks this Court to sanction its conduct.

Contracts reasonably protecting good-will as a property right have been favored in the law. And as an incident to the protection of good-will, the property right in a common law trade name, or trade-mark, has also received the peculiar protection which the nature of such property requires.

Accordingly, it is also established that equity will enjoin, as "unfair trade," any effort to steal part of a competitor's good-will by offering goods of like class under a trade name or wrappings which unfairly simulate his.

If it be "unfair trade," and an actionable wrong, to impair a manufacturer's good-will by simulating his trade name or mark, and thus stealing a part of the good-will for the benefit of the unfair competitor, why is it not equally "unfair trade" for the Boston Store to impair the value of the Columbia trade name, by procuring from the Columbia Company a stock of records on the faith of the solemn agreement of the Boston Store that it will maintain the prices, and then at once breaking the agreement in order to benefit the Boston Store's trade in other articles by advertising a "cut sale" in Columbia records?

The inference of bad faith and unfair dealing is as necessary in the latter case as in the former. And the additional element of consequent injury to the good-will or property right involved is also present.

In the sale of a business which makes or deals in unbranded merchandise, the good-will asset inheres in the business rather than in the merchandise, and it is frequently of great value.

Yet no one will deny that in the sale of such a business the buyer may, in order to protect the good-will which he is buying, impose upon the seller restrictive covenants not to com-

pete at all within the same trade territory for a reasonable number of years.

Such restrictions are inherently reasonable because they are reasonably necessary to protect the intangible asset of good-will which is put in jeopardy of destruction or impairment through the fact that the buyer and seller have dealt with it in a manner which exposes it to danger of injury by the seller.

The same reasoning seems to require with even greater force a like conclusion in the case at bar in respect of a sale of a stock of branded merchandise by a manufacturer to a dealer who wishes to deal in such merchandise. While the good-will of the manufacturer's business is not sold, nor the trade-name, the parties do deal with the merchandise in which the good-will inheres, in such a way as to expose the good-will to danger if the dealer should attempt to injure it by unfair dealing.

And it is just as unreasonable and unfair for such a dealer to destroy or damage the good-will of the manufacturer, in order to benefit the dealer's other business, as it is for the seller of a good-will to attempt to destroy or damage it for his own benefit, after he has sold it.

In each case the right to reasonable protection of the good-will, as a property right, is the basis of the rule.

And the test by which the reasonableness of the attempted protection agreement should be measured, therefore, depends in each case upon the nature and extent of the danger to which the good-will is exposed.

If the well recognized restrictions permitted to be imposed upon the seller of a general merchandise business are reasonable in scope, the attempted restriction upon the dealer in the case at bar is no less reasonable in scope.

If the good-will or trade-name of a stock of branded articles, when thus placed in the hands of a dealer, is entitled to any protection at all, it is clear that the degree of protec-

tion sought to be retained and contracted for in the case at bar is reasonable and not excessive in nature or extent. It measures reasonably with the danger to which the manufacturer's good-will is exposed to danger through unfair handling by the dealer.

For the foregoing reasons, and upon the authorities cited, we respectfully submit: that the agreements in the present case, between the manufacturer and his dealers, do not justify the conclusion that either the Sherman Act or public policy should be held to interfere with the freedom of the parties to contract; and that therefore Question 4 should be answered affirmatively.

All of which is respectfully submitted.
December, 1917.

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